BULLETIN

MADRAS DEVELOPMENT SEMINAR SERIES

Vol. XXI No. 9 September 1991

9/10/91

LIBRARY MADRAS.

Need based energy Management—
Distribution is the key

The Union Budget 1991 - 92
Some Quick Comments

CONTENTS

Editorial—Some Highlights

General Economic Scene 369

Agricultural Development in Tamil Nadu 401

Industrial Development in Tamil Nadu 404

Education, Science and Health 407

Employment and Labour Relations 408

Other Items 409

MIDS News 413

August Development Seminar
Need based energy Management—Distribution is the key 414
—M.G. DEVASAHAYAM

Summary of Discussion 424

The Union Budget 1991-92
Some Quick Comments 426
—MALCOLM S. ADISESHIAH

Book Review 431

EDITORIAL - SOME HIGHLIGHTS

I. General Economic Scene

State

1991—92 Proposals

In the reply to the debate on the Governor's address, the Chief Minister set forth a number of proposals, to be implemented from this year which increases the year's deficit from Rs. 307.31 crores presented in the interim budget for 1991-92 (see Vol XXI p 205) to Rs. 1200 crores. The 1990—91 budget shows a deficit of Rs. 209.86 crores and the year ended with a shortfall of Rs. 153 crores. The Rs. 1200 crores deficit for this year, 1991—92 comprises a) the deficit shown in the interim budget b) Rs. 220 crores for DAs, higher subsidy on PDS and debt relief to weavers and farmers, c) the loss of revenue of Rs. 322 crores in closing the cheap liquor shops, d) within a 5 year target of building 10 lakh building units, 1.2 lakh units to be built this year, including the units built by TN Adidravidar Housing Development Corporation, the Tamil Nadu Housing Board, the Slum Clearance Board are the Cooperatives, with the balance to be built by the private sector helped by availability of finances and building materials plus provision of drinking water facility to 2483 habitations including 943 occupied by Adi Dravidas at a cost of Rs. 10 crores and Rs. 7 crores to provide drinking water to 1087 Adidravida habitations in other village, e) 12 cooperative spinning mills to be modernised at a cost of Rs. 25 crores, the IDBI contributing Rs. 18 crores and the state Rs. 7 crores, f) Rs. 25 crores for increasing oil seeds products and cooking oils on the basis of the project of the TN Oilseeds Growers Cooperative Federation, with a special oilseeds production programme in Dharmapuri and several extraction and bean oil nuts in other districts, g) Rs. 289 crores to compensate district cooperative banks on the loan waiver scheme of which the states share is Rs. 145 crores plus Rs. 54 crores as the first instalment repayment to the union government, h) an extensive programme of capital subsidy and sales tax concessions to promote industrialisation—the details of which are set forth in the industrialisation section, i) a granite polishing unit and a mango pulp unit in Dharmapuri, j) a

Rs. 85 crores pig iron project in the joint sector in Mettur, k) a silicon unit also in the joint sector, l) a graphite benefication unit with an initial cost of Rs. 15 crores facilitating ancillary units of Rs. 200 crores m) a push to increase union investment which is a mere 5 per cent of total union investment in India, n) industries to be allowed to improve roads and collect tolls to meet its cost, o) a request for special union grant for export oriented centres like Tirupur, Ambur, Ranipet and Dindigul, p) on power, the clearance of the Rs. 2500 crores expansion of the first mine cut at Neyveli and the setting up of two 210 MW thermal plants lignite at Neyveli and the 1500 MW thermal station in the VIII Plan. In view of the difficulty of getting coal, the whole of Neyveli's power should be allotted to Tamil Nadu. q) the reopening of the closed spinning mills and starting Standard Motors factory, r) in the health field, priority for higher education, pay rise and deputation for foreign studies for doctors who opt to work in rural areas, the increase of medicines in PHCs from Rs. 30,000 to Rs. 400,000 involving Rs. 1.5 crores plus improvements to district hospitals, s) on rural development, upkeep of 1.2 lakh pumpsets involving a doubling of the allocation to Rs. 1.5 crores, Rs. 1 crore special grant to each Panchayat Union to enable them to pay their dues to the Tamil Nadu Electricity Board and the annual allocation for road improvements increased from Rs. 5.32 crores to Rs. 9.02 crores, and Rs. 65.85 lakhs to provide raincoats to 39 000 conservancy staff worker's in local bodies, t) special training for those appearing for union examinations and u) Rs. 20 crores for improving Madras city roads and Rs. 20 crores for removing traffic bottlenecks and provision of Rs. 100 crores for elevators on busy crossings on Anna Salai, Rs. 18.50 crores for laying sewage lines and clear the city's water ways, and v) Rs. 9 crores to provide half kg of rice for weak and old persons, Rs. 374 crores for the self sufficiency scheme. All this industrial, Rural Development and Welfare measures are important and have been carefully programmed. The government stated to the Assembly that it is in the grip of a financial crunch and faces for the year a total deficit of Rs. 1200 crores. Now the budget for 1991-92 is looked forward to see a) how many of the schemes will become a reality in 1991-92 and b) what their cost is and how it will be financed.

Climate and Prices

July was a cool month, after the warm summer weather of the previous two months. There was also the rains during the month which covered not only the southern districts but this year also Madras and Northern districts. This year's south west monsoon has been good, as for the period June 1 when the monsoon started to July 10 all districts except Nilgiris received excess rainfall. Madras district received 320 mm against. Infact the normal 74mm which was a 331 per cent excess over the normal. Infact the normal rainfall for the entire season for Madras city (June 1 to September 20) is only 340 mm. The rainfall in the districts was also good, at 18 per cent above normal for Nilgiris, and 617 per cent for the Chidambaram district. The city has had cloudy weather throughout July. The government deputed a team to Kanyakumari to assess the damage caused by the rains and floods. The rain caused breaches in 14 tanks and 18 channels and several towns and villages have been inundated

in the district. On prices, CSO's monthly abstract of statistics for January1991 (arriving 6 months later in July) reports the index number of consumer prices for industrial workers being stagnant at 185 for September 1990 and moving up 2 points to 187 in October 1990 with no data beyond September 1990 for index number of prices for agricultural workers and beyond October 1990 for urban non manual employers, reported already in Vol (XXI p208). Despite efforts made by the government and the promises of vegetable dealers to the food minister, the price of vegetables continued to be high in July. Tomatoes was selling at Rs. 25 a kg, carrot Rs. 16 a kg, beans Rs. 10, brinjals Rs. 6 and potatoes Rs. 6 a kg. Edible oil is selling at an incredible Rs. 50 a kg and pulses Rs. 22 a kg. the reasons for this sharp rise are not known and the profiteering seems undetected.

Power

The power situation in the state in July was normal with the continuing 25 per cent cut on HT industries. By July 18, hydel reservoirs had a storage equivalent of 1220 MUs (against 974 MU at this time last year and the total capacity of 2200 MMU). The south west monsoon is continuing to bring inflows during the month, and by the end of July the overflow from the KR Sagar and Kabini flowing into Mettur has raised its level over 110.45 feet on July 31, reaching the full level of 120 feet by August 2 or 3. The inflow into Mettur was 2.75 lakh on July 31. As a result, the TNEB has stepped up the hydel generation. Its storage at the end of the month was equivalent of 1630 MU against the full capacity of the reservoirs of 2200 MU. But the coal stock position for 3 thermal station is not good at 75,000 tonnes which is 3 days consumption. There are substantial stocks available at the 3 loading ports—Haldia (1 4 lakh tonnes), Paradeep (42,000 tonnes) and Vishakapatnam (62,000 tonnes). TNEB is unable to lift the 1 lakh tonnes offered by AP chief minister trom the Srirampur and Ramkrishnagar fields as Singereni has not permitted the use of its loading facilities because of the naxalite problem. Another problem area is that the expansion projects of NLC are held up because of the political changes in former East Germany. The first mine cut and the thermal plant expansion was to come from the erstwhile East Germany and the USSR for the thermal plant. Similarly the expansion plan for the briquetting and carbonisation plant is held up for the same reason. The plan now awaits the settlement of the political and economic situation in the unified Germany. The General Electric Company is setting up a Rs. 7 crore unit in Madras to make SF6 circuit breakers and isolators which will help the power industry in the state.

The power situation in the country was normal in July, with Karnataka having its hydel reservoirs full, so that it was able to lift the 25 to 30 per cent cut on HT users. However power shortage has hit AP's textile industry. Due to the devaluation of the rupee, the cost of the 710 MW Koelkaro hydel project aimed at developing the backward tribal adivasi area of Bihar has been increased by over Rs. 250 crores and has therefore been shelved. The government states that during the next 3 years 27,000 MW more power could be generated at a cost of Rs. 89,000 crores to be raised internally, for which Rs. 20,000 crores is needed in the Plan, and for which there is little hope as will be seen when the union budget is analysed. Will the power tariff be

cost based, cutting the subsidies on which it lives? The post budget period will answer this query. The question of gas price is now the subject of controversy. The Kelkar committee has rejected the suggestion that the pricing of natural gas when used as fuel for power generation should be fixed on the heat equivalent of coal. The committee has suggested that it is the total cost of generation that should be the base. The gas price for the power sector should be linked to the fuel oil replacement value, or the fertiliser sector to the Naphtha replacement value. The fuel/oil equivalent price will be Rs. 2000 per 1000 cubic metres against the current price of Rs. 1400 per 1000 metres. The Gujarat government has rejected the Kelkar committee report and wants a broad based price commission on gas.

Water

In July the major issue in the state was the non notification by the union government of the interim order of the cauvery water tribunal and the non implementation of the order by the Karnataka government. The government organised a bandh in the state on July 26 which was supported by all parties and the 11 Tamil Nadu AIADMK MPs have sent a memo to the Prime Minister that they would resign from the Parliament, on this issue. The Minister of Labour who is also President of TNCC-I resigned his ministership. Karnataka has contested this by organising a bandh on the same day, July 26 in protest against the interim order which it states it will not carry out as it is ultra virus and has passed an ordinance nullifying the ordinance. It is very doubtful if Tamil Nadu will get any water this year from the cauvery. Mettur has been receiving the surplus water discharged from the Kabini and KR reservoirs in Karnataka and its level reached 110 feet against the full level of 120 feet. The inflow has increased to 1.3 lakh cusecs. The reservoir was opened on July 21 and it was hoped can stay open till January 1922 (if the interim order is carried out). The Papanasam reservoir which serves only Tirunelveli and Chidamabaram districts is reported to be surplusing which is rare in July and the water supply is being used for advance kar cultivation. The National Water Development Agency after a survey of the surplus water of the Pamba and Achankoil rivers in Kerala has drawn up a plan for transferring 664 cm of the surplus water of the 2 rivers (after meeting in full the existing and future water needs for irrigation, domestic and industrial use as per the norms of the government of Kerala) through a 10 km tunnel through the Western Ghat and the open channel in Tamil Nadu to serve the drought prone areas of Tirunelveli, Madurai and Ramanathapuram. This should be followed up by the two governments.

Housing, Water Development and Transport

The plan for building 10 lakh houses in 5 years, involving the building this year of 1.2 lakh houses by the Tamil Nadu Adi Dravidar Housing Corporation, Rural and Urban housing programmes, the Tamil Nadu Housing Board and the Slum Clearance Board and Cooperative was earlier referred to. Further a special Rs. 20 crore scheme for improving roads and bridges to remove traffic bottlenecks. A scheme for streamlining the distribution of uninterrupted water supply to all parts of city at a cost of Rs. 505 crores is to be taken up with the financial assistance from LIC

(Rs. 50 crores), HUDCO (Rs. 125 crores) and the World Bank (Rs. 350 crores). The Pallavan Transport Corporation reports that it has installed an inexpensive device—an accelerator pedal stopper—which increases the fuel efficiency from 3.3 km per hour to 4.6 km mph. This may enable the PTC to restore the services cut on Sundays with the substantial saving on fuel.

Self Sufficiency

As part of the 1991-92 proposals with which this section started, a Rs. 384 crores special self sufficiency scheme was announced to be launched immediately. This scheme is to provide basic facilities in rural areas which include roads, drinking water supply, street lights and health services. Each panchayat union is to get Rs. 1 crore for this purpose as noted earlier. All this depends on resource availability and on this the government has made requests to the union finance minister, the deputy chairman of the Planning Commission and the Prime Minister to increase the various grants to the states under Plan and non Plan heads.

Market Borrowing

In the RBI floated Rs. 1200 crores states borrowing, Tamil Nadu raised the 6th largest loan at Rs. 87.30 crores, the largest being that of UP at Rs. 204.40 crores.

National

Union Budget (Final) 1991-92

The final Union budget for 1991-92 was presented to Parliament in late July. Its major features are summed in the table below.

It will be noted from the above table that non plan expenditure (item 9) which was budgeted at Rs. 76,907 crores in the interim budget (which was a little lower than the revised 1990—91 budget) estimate has been raised to Rs. 79,697 crores that Revenue deficit (item 18) which was shown in the interim budget at Rs. 17,766 crores is reduced in the final budget to Rs. 13,884 crores, that the budgetary deficit interim budget (item 19) which was Rs. 9977 crores is reduced to Rs. 7791 crores and the fiscal deficit in the interim budget (item 20) which was estimated at Rs. 38,475 crores is now estimated at Rs. 37,727 crores. In introducing the budget, attention is called to some 35 items which the budget, directly or indirectly dealt and some 13 group of broad budget expenditure or income proposals: 1) The precarious balance of payments situation, the current account deficit of which has increased from 2 per cent to 2.5 per cent of GDP, 2) the fiscal imbalance which has been worsened by the Gulf crisis, 3) the inflationary pressure wherein at 31 March 1991 the wholesale price increase is 12.1 per cent and the consumer price index is 13.6 per cent, concentrated on essential commodities. 4) The large and persistent macro economic (imbalances) and low productivity of investment manifested in a) unsustainable increases in government expenditures, notably, b) run away subsidies, c) a tax system with many loopholes, d) the public sector not generating investible surplus, e) the anti-

(All figures In Rs. Crores)	1989-90 Actuals	1990-91 Budget Estimates	1991-92 Revised Estimates	1991-92 Interim Budget Estimates	1991-92 Budget Estimates
1. Revenue Receipts	52296	57938	57381	63584	67529
2. Tax Revenue (Net to centre)	38349	45294	44318	49374	52500
3. Non-Tax Revenue	13947	12644	13063	14210	15029
4. Capital Receipts	30018	34165	38564	36006	38174
5. Recoveries of Loans	4980	4576	6005	5608	5666
6. Other Receipts	—	—	—	2500	2500
7. Borrowing & other liabilities	25038	29589	32559	28498	30008
8. Total Receipts (1+4)	82314	92103	95945	100190	105703
9. Non-Plan Expenditure	64505	68843	76761	76907	79697
10. On Revenue Account	52137	56671	60946	64304	64315
11. On Capital Account	12368	12172	15815	12603	15382
12. Plan Expenditure	28401	30466	29956	33260	33725
13. On Revenue Account	12071	14299	14020	17046	17068
14. On Capital Account	16330	16167	15936	16214	16657
15. Total Expenditure (9+12)	92906	99309	106717	110167	113422
16. Revenue Expenditure (10+13)	64208	70970	74966	81350	81383
17. Capital Expenditure (11+14)	28698	28339	31751	28817	32039
18. Revenue Deficit (1−16)	11912***	13032	17585	17766	13854
19. Budgetary Deficit (8−15)	10592	7206	10772	9977	7719*
20. Fiscal Deficit (1+5+6)(15-7+19)	35630	36795	43331	38475	37727**

* Includes transfer of Rs. 2300 crores of OCC deposits from Public Account.

** Including other variations in RBI's credit to central government.

*** Not independently estimated.

rural economy bias, f) the widening gap between government income and expenditure and g) the flight of capital from the country, 5) the fiscal deficit climbing to more than 8 per cent of GDP in 1990—91 against 6 per cent in the 80s and 4 per cent in the 70s 6) The internal public debt rising to 55 per cent of GDP with onerous debt servicing. 7) Interest payments being above 4 per cent of GDP, constituting 20 per cent of total union government expenditure. 8) The external debt including NRI deposits estimated at 23 per cent of GDP and the debt servicing being 21 per cent of current account receipts. 9) The current level of foreign exchange reserve falling to Rs. 2500 crores, covering a mere fortnight's imports. 10) A credible fiscal adjustment and macro economic stabilisation requiring progressive reduction of the fiscal deficit of the union government, a similar cut in the revenue deficit and reduction in the current account deficit in the balance of payment along with reduction in the levels of internal and external debt. 11) The need to back up this macro economic stabilisation and fiscal adjustment by economic policy reform to a) increase efficiency and international competitiveness of industrial production, b) for this to utilise more foreign investment and foreign technology, c) to modernise the financial sector and d) to improve the performance of the public sector. 12) Industry to shed barriers to entry and limits on size of growth of firms, reverse the proliferation of licensing which has led to monopoly. 13) Industrial Development is related to trade policies calling for changes in import-export policy aimed at reducing import licensing, promoting exports and compression of imports. 14) The exchange rate adjustments - Devaluation - on July 1&3 and the enlargement and liberalisation of the replenishment license system which begins. 15) the transition from a regime of quantitative restrictions to a price based mechanism. The scope and area for the operation of market forces is to be expended as it is held that a reformed price system is superior to quantitative control for resource allocation. 16) There is to be a liberalised policy regimes for direct foreign investment, particularly in high priority industries which will be given prompt approval. 17) Foreign equity ratio of 51 per cent to be allowed for trading companies engaged in exports A special board is to be constituted to negotiate with a number of large international firms and approve direct foreign investments in selected areas giving access to high tech and world markets. 18) The public sector is to be turned around to make it an engine for growth rather than an absorption of national savings without return. For this the portfolio of public sector investments are to be reviewed to concentrate its future operations in strategic areas requiring high tech and essential for infrastructure and in order to raise resources, widen public participation and promote greater accountability upto 20 per cent of equity in selected public sector undertakings to be offered to mutual funds and investment institutions in the public sector and their workers. Sick PSUs are to be referred to BIFR and there is to be austerity in management of PSUs. 19) The banking and financial system is to be reviewed to introduce production norms and improve profitability and for this a high level committee is to be set up to consider structure, organisation, function and procedures of the system. 20) Interest rates a crucial dimension of the financial sector can have some relaxation in intervention, on which RBI has started by providing a floor, the removal of all restrictions on interest rates of debentures which will be

governed by market fotces. Similarly facilities are to be extended to small savings. 21) For the growth of the capital markets, protecting the rights of investors and preventing trading malpractices, the government is to set up a Board and give it its needed power. 22) A comprehensive review of policies and procedures on NRI investment is to be carried out and further relaxation made to remove all problems and obstacles. 23) The Board of Industrial Costs and Prices is to be transformed into a Tariff Commission to fix tariffs and domesfic prices where there might still be need to protect Indian industry and ensure coordinated resources. 24) Fiscal adjustment requires reduction in government expenditure and increase in government income. The elimination of structural imbalances requires reduction in both fiscal deficit and revenue deficit as a proportion of GDP. The budget does this. 25) As noted earlier the fiscal deficit estimated by the interim budget at Rs. 38,475 crores was because of nothing being done in the 4 months since its presentation to Parliament, shot up to Rs. 52,000 crores. The budget deficit narrowly defined as borrowing through short term treasury bills for 1990-91 estimated at Rs. 11,400 crores was higher than the revised estimate of Rs. 10,722 crores because of a revenue shortfall particularly in Corporation tax revenues 26) Turning to 1991-92, the increasing level of non plan expenditure financed through borrowing has led to a steep increase in interest payments, the revised estimated for 1990-91 on interest of Rs. 21,850 crores which was 38 per cent of net revenue receipts will be Rs. 27,450 crores being 42 per cent of net revenue receipt and by 1994-95 could shoot up to 50 per cent of the receipts, showing the need to reduce non plan expenditures in the next 3 years. Total revised non plan expenditures for 1990-91 is Rs. 76,791 crores which would increase to Rs. 89,000 crores in 1991-92, calling for a reduction in it by atleast 10 per cent. The major item of interest payment would rise to Rs. 36,000 crores in the next year and so points to the need for strict discipline in government borrowing during the remaining 3 years. 27) Defence outlay, the second largest component of non plan expenditure is not being reduced from the revised 1990-91 Rs. 15,750 crores but is being increased to Rs. 16,350 crores in 1991-92, which is to be regretted. 28) The export subsidy is substantially reduced as will be noted under the economy section as a result of the abolition of CCS from July, enabling the export subsidy to be reduced from Rs. 4300 crores to Rs. 1224 crores. 29) On fertilisers, the 4 low analysis fertilisers are freed from price and movement controls, increasing the prices of other fertilisers by 40 per cent along with a subsidy ceiling on super phosphates leading to its total deregulation in the future, inducing a reduction of cost and improvement of efficiency. 30) 50 per cent of Plan resources are to be invested in the agriculture and rural sectors. 31) The sugar subsidy of Rs. 350 crores on levy sugar is abolished and the levy price under PDS increased from Rs. 5.25 a kg (the free market prices is Rs. 10 a kg) to Rs. 6.10. The provision of food subsidies is being increased from Rs. 1800 crores in the interim budget to Rs. 2600 crores so that PDS could function effectively for the rural poor in the matter of foodgrains. 32) As a result of the July devaluation, the import bill for crude and petroleum products will rise and so petroleum prices-motor spirit, LPG, is to be raised by 20 per cent and the price of diesel and kerosene for

industrial use by 10 cent, while for domestic use is reduced by 10 per cent, which is a 50 per cent roll back in relation to October 15, 1990 prices. This will help the poor with kerosene and farms with diesel also whose price will not be increased 33) On non plan expenditure excluding interest, defence and major subsidy, the total provision in 1991—92 budget estimates is Rs 28073 crores, showing a reduction of Rs. 1538 crores compared to 1990—91 revised estimates. 34) As there is no provision for DAs and to avoid the ministries cutting into their plan allocation to meet their DA allotments, they are requested to prioritise their activities so that the low placed ones can be abridged or absorbed. 35) The non plan expenditure on the Rural Debt Relief Scheme which has introduced an expenditure of Rs. 1500 crores last year to meet Rs. 800 crores as its under estimate and for the year a future Rs. 1500 crores is provided. 36) As the budget had to be presented within one month of the new governments' formation because the vote on account expires at the end of July, the Annual Plan for 1991—92 has not been reoriented to reflect the new concerns, and more over being situated amidst the massive fiscal corrections which called for a reduction of the Union Plan and its assistance to states' plans, all of which are avoided. The Union Plan for 1991—92 records an increase at Rs. 42,969 crores and its assistance to states plans, at Rs. 14,710 crores have been protected. Against this background, the budget proposes a) the higher revenue from direct taxes, b) a national housing fund, a corporation for the welfare of backward classes and a and a national renewal fund for workers unemployed by closing firms. c) incentives for research and publishing industry, d) promotion of offshore country funds, e) incentives to software exports, f) relief to new hotels in hilly and remote areas, g) correction of tax avoidance through transfer of assets, h) income and wealth remain unchanged, i) corporate tax raised j) interest tax rates revised, the direct taxes resulting in a net revenue of Rs. 2139 crores of which Rs. 97 crores will accrue to states, k) ad valorem, customs duties halved with a ceiling of 150 per cent, l) relief in auxilliary duty, m) extension of MODVAT to other items, n) providing relief for drugs, aluminimum and newsprint, o) increase in special excise duty, on cigarettes, tax p)adequate allocation to sectors dealing with human resources and q)a grant of Rs. 100 crores in 5 years involving Rs. 20 crores in 1991-92 to the newly created Rajiv Gandhi Fund to function in 7 fields. All this places total receipts at existing tax rates at Rs. 103,698 crores, and total expenditures at Rs. 113,422 crores (Rs. 79,697 crores non plan and Rs. 33,725 crores Plan). Revenue receipts at existing rates of taxation yield a gross revenue of Rs. 66,218 crores this year compared to last year,s revised estimates of Rs. 58,916 crores. The states' share of taxes is Rs. 15643 crores and the net revenue receipts of the union including more tax revenue are estimated to increase from Rs. 57,381 crores in 1990-91 to Rs. 65,524 crores this year. In capital receipts, market borrowing is Rs. 7500 crores against last year's Rs 8000 crores and instead of increasing by 10 per cent to over Rs. 8800 from past trends, small savings collections will be Rs. 8000 crores and Rs 2500 crores from the 20 per cent disinvestment of the equity, (which would also broad base the equity, improve management and increase their resources), external assistance is placed at Rs. 3510 crores (not allowing for devaluation) compared to Rs. 3984 crores in 1990-91. The result of all this is a budget deficit of Rs. 99,124 crores (without additional tax and resou-

rce mobilisation), the revenue deficit at Rs. 15,859 crores and the fiscal deficit at Rs. 39,732 crores—from each of which the additional resource mobilisation of Rs. 2005 crores should be deduced. The details of the tax proposals are : A) the indirect taxes 1) LPG up by 20 per cent, kerosene for domestic use down by 10 per cent. 2) colour TV excise increase by Rs. 500 to Rs. 750, with black and white TV exemption 3) excise on VHS, VCR and VCP to be increased by Rs. 250-400, 25 to 30 per cent 4) cigarettes, bidis and panmasala to net Rs. 337 in one year, 5) excise on refrigerators increased by Rs. 200-800, air conditioners by Rs. 2000 to Rs. 30,000 and compressors by Rs. 18,000, 6) the ad valorem rate of basic plus customs duties reduced to a maximum of 150 per cent (from the current over 300 per cent on some articles) except for alcoholic beverages and passenger baggage,7) auxiliary customs duty relief of 10 per cent on items which had an increase of 20 percent in December 1990, 8) for items like waste paper, wood, jigat (used to make agarbathi), ethylene, machinery for fuel injection; printing machinery, the auxiliary customs duty rolled back to the pre December 1991 levels, 9) import duty on capital goods and machinery and spare parts reduced from 85 to 80 per cent, 10) a concessional duty of 50 per cent for machinery under technology upgradation scheme, 11) excise on motor cars increased from 50 to 60 per cent, 12) excise on 2 wheelers of 50-75 cc reduced from 20 to 15 per cent, 13) excise on audio cassettes increased from Rs. 3 to Rs. 5 per sq metre and on video cassettes from Rs. 10.50 to Rs. 15 per sq metre, 14) 5 anti epiletic formulations exempted from duty, 15) yarns for fishing nets exemption from duty, 16) excise concession for pesticides and exemption from food processing items and agrobased products like butter, cheese, vegetable oils and jelly beans, 17) aluminium doors and windows and adible oils fully exempted from excise, 18) tea, coffee and vanaspathi exempted from special excise, 19) no excise on bicycles and energy efficient choolas, and 20) the total excise exemptions of utensils extended to other household items. B) The direct taxes proposed are a) personal income tax rates and surcharge unchaged, b) no change in wealth tax rate, c) basic deduction of Rs. 10,000 under section 48 of IT Act for long term capital goods raised to Rs. 15,000, d) tax daduction at source to cover new areas like commission and interest paid by bank on time deposits and withdrawal from National Savings Schemes for payments above Rs. 2,000 a year, e) loss of transfer of capital assets will be set off only against gains from transfer of another capital asset, f) a last chance for tax evaders to declare their resources through deposits with the National Housing Board before November 30, 1991 and one more chance to declare unaccounted incomes which section 273 A of IT Act being amended, g) corporate tax for widely held companies raised from 40 to 45 and for closely held companies from 45 to 50 per cent, with existing 15 per cent surcharge to continue, h) general rate of depreciation for machinery and plant reduced from 33.33 to 25 per cent and depreciation for motor buses, taxis and other equipment reduced from 50 per cent to 40 per cent, i) 100 per cent depreciation to continue for renewable energy and energy saving devices, j) deduction from taxation profits of entire amount paid for social welfare schemes, k) tax concessions to fund social science research, incentives to authors and publishers and revival of deduction of 25 per cent profits from books and professional income of authors of Indian language texts for 5 years, l) 10 per

cent reduction on tax on dividend in comes from UTI offshore funds and its long terms capital gains, m) deduction under section 80U of IT Act for blind or physically handicapped raised from Rs. 15,000 to Rs. 20,000, n) tax rebates under section 88 IT Act to public, housing corporation schemes, under section 80HHC to software exports and processed minerals and concessions under section 80 extended to scientists, technologists and professionals, o) newly approved hotels in villages and remote areas exempted from expenditure tax for 10 years, p) tax exemption to incomes from horse races abolished, r) donation to African fund 100 per cent tax exemption, and q) in the human resources area, education has an increase of Rs. 112 crores to Rs. 977 crores in the current year, the employment generation for 900 million mandays have been provided Rs. 2100 crores, rural water supply Rs. 758 crores so that there will be no problem villages by March 1993 and the development of the corporation for backward classes welfare, National Renewal Fund to look after workers unemployed because of technical change (as noted earlier), a National Foundation for communal harmony to care for children orphaned in communal riots, youth exchange for national integration and a programme for South cooperation. The direct tax levies, it was earlier noted, will yield Rs. 2138 crores including Rs. 97 crores for the states. The income of revenue through the corporation tax will bring in Rs. 1304 crores, the interest tax an increase of Rs. 535 crores, personal income tax an increase of Rs. 125 crores through enlarging the net and better collection : on customs Rs. 510 crores will be lost through narrowing the range and reducing the maximum rate from 300 per cent to 150 per cent. The union excise -will net Rs. 988 crores and the total tax revenue increase will be Rs. 2617 crores. On the expenditure side, major subsidies (export and fertilisers) have been reduced from Rs. 9550 crores to Rs. 7824 crores. On interest, the largest item, there is no reduction and there can be none in the short run but by reducing market borrowing future interest payments will be reduced. On expenditure reduction, it is capital expenditure, plan and non plan--that has been cut, with only a 1 per cent increase over last year's capital expenditure, while revenue expenditure has increased by 8 per cent. The ministries that have taken a cut in outlay are —fertilisers from Rs. 585 crores to Rs. 411 crores, civil aviation from Rs. 485 crores to Rs. 433 crores, industrial development from Rs. 244 crores to Rs. 70 crores, heavy industry from Rs. 594 crores to Rs. 531 crores and mines from Rs. 613 crores to Rs. 417 crores. All this reflects the intention of government to pull in its horns in these sub-sectors, and let private operators take over. The budget for the first time is the centre of a comprehensive national economic policy but like all budgets has its strong points and weaknesses. In assessing the union budget for 1991-92, the budget must be viewed as part of a 4 point package comprising a) the macro economic adjustments effected in the main by the budget introduced on July 24, b) the reduction in the balance of payments deficit on current account through the devaluation of the Rupee effected on July 1 and 3, c) complemented by the reforms in the policy on imports and exports brought into being on July 4 and d) the structural adjustments involved in the new industrial policy announced on July 24. This four part policy of which the union budget for 1991-92 is the decisive key and focus aims at bringing about a turn around in the economy through macro

economic stabilisation and adjustment in reducing sharply the fiscal deficit along with paying the rather heavy cost in taxes and charges which such adjustment involves. The budget on some items also take account of the devaluation of the rupee in computing the heavier debt servicing charges involved, though the effect on the larger rupee equivalent of foreign resources inflow is not reflected in the budget. Second, the tax increases which will bring in Rs. 2617 crores during the year are needed both to reduce the gap between government revenue and expenditure and to cut back consumption of goods and services not essential for the individual or household and economy. It is also good that the decline in direct tax receipts has been stopped and the excise increase are on what the government calls elite consumption. But if the NCAER survey referred to later is right, some of these items are now being consumed by the urban and rural poor. If they are doing so, they should also bear the burden of increased taxes. Third, the budget has made a start in cutting back on government expenditures mainly in reducing the cost of fertiliser subsidy, in abolishing the cash compensatory support which cuts back about three fourths of the export subsidy and reducing one part of the food subsidy namely that on sugar. In this area of cutting government expenditure, it is good that the government has asked the ministries to prioritise their items of expenditure, so that they could cut the last items for purposes of paying their DAs or our economy measures. Fourth, as a result a first step has been taken in the revenue deficit reduction from Rs 17,585 crores of the revised 1990-91 year to Rs. 13,845 crores for the current year and this process need not only to be maintained during the year, it needs to be intensified during the next 3 years so that by the end of the VIII Plan there will be no revenue deficit. Similarly one fifth of the budget deficit has been cut from Rs. 10,772 crores in 1990-91 revised, to Rs. 7719 crores in 1991-92 which is 1 per cent of GDP. This again is a good start and should not be allowed to increase during the year and should be continued and intensified in the next 3 years so that the budget deficit at the end of that period is O. Sixth, the reduction of the fiscal deficit from Rs. 43,331 crores (revised) in 1990-91 which was 8.5 per cent of GDP has been reduced to Rs. 37,727 crores for this year which is 6.5 per cent of GDP. This sets the stage for negotiation on the long term and longer IMF loan. But the aim in regard to the fiscal deficit also should be to bring it down to 2-3 per cent in 3 years time. There are also certain queries in the budget. First, on the cutting of non plan expenditures, not enough has been done on two fronts. One is the huge defence outlay which has not only not been cut but has actually increased. The other is the administrative costs of the government has not been cut nor the budget support and subsidies to the public enterprises. Here much more could be done in the next budget. Second, the loss making public sector enterprises are not being adequately dealt with in the budget. They are being referred to BIFR which is a waste of time, as the experience of the past few years since its creation shows. These perenially loss making units should have been closed or sold. The obstacle to this is the strong opposition of the trade unions and the political parties. It is hoped that the National Renewal Fund will begin functioning this year and give the trade union an assurance that the workers who are thrown out of work as a result of closing the loss making units will be retrained and deployed in the new units which the

funds raised from sale of their real estate should make possible. Meanwhile the Fund will provide a safety social security net to the unemployed workers. Second, the proposal to disinvest 20 per cent of equity of some public sector enterprises raises many issues. It should not be regarded as a revenue raising measure. Its receipts should not be used to meet the government's consumption expenditure. It should also cover loss making units and the funds so raised should be used as capital investment. Third, in the area of taxation, the biggest gap in the country is the absence of any tax on agriculture. This has been widely debated in the economy and it is to be regretted that the budget has not posed this issue as a question which demands serious attention in time for the next budget. Fourth, the inflationary pressure will be fed from four sources: first, the rise in petroleum prices and (railway fares and rate); second, the improved balance of payment through larger export earnings and higher import prices resulting from the rupee depreciation: third, the subsidy reduction of fertilisers and sugar will raise their prices: fourth the enhanced excise on the "white goods", TV, VCRs, VCPs. The contra force is the macro level deficit reduction and the decontrol, delicensing and deregulation which are long term anti-inflationary forces. Fifth, there is a feeling of unease over the various provisions made in the budget for dealing with black money. There is the amnesty scheme which will allow people to deposit their funds in the National Housing Rank, and on 60 per cent of it, the depositer can draw and use it as he likes. On the whole deposit, there is "to be no look in period". The other scheme is the foreign exchange remittance received by any person which will not be subject to gift tax and will not be subject to scrutiny under direct tax laws and exchange control regulations. There have been some 7 schemes like this in the past which have failed to unearth black money and which are unfair to the honest tax payer. Sixth, the NRIs are being invited to send funds to India on the assurance that no question will be asked as to their source. This surely is an open invitation to NRI to bring in a larger way unaccounted money which they are doing now and using our banks to launder such black money. This is being done by the immunity to foreign remittances from direct tax laws and exchange control regulation referred to earlier and the dollar based Indian Development. Bonds to be issued for the use of NRI. What is even more disturbing is the statement of the government that it expects the flow of $3 billion as a result, so that its loan from IMF could be reduced to $2 billion. Here we are entering a very slippery path. Seventh, there is a suspicion that the reduction in the fiscal deficit is to some extent based on under budgeting of several items. Except for some items like debt servicing, the budget does not reflect the effects of the devaluation of the Rupee (and the rise in the railway rates). Barring a few items, most are budgeted at the same level as the interim budget, which was constructed before the devaluation of the Rupee. This may be a signal to the ministries to cut their spending when it is in rupees. But when the expenditure has to be in foreign exchange as in the case of embassies maintained by the Ministry of External Affairs, or in the case of the annual contributions to the United Nations and the specialised agencies, or in the case of defence imports, or purchase by the departments of space or atomic enegies, there should have been 20 per cent over what was provided in the interim budget. There is no provision for this increased expenditure and to that

extent the budget is misleading. Eighth, it is well to bear in mind the World Bank caution in its 1991 World Development Report that while the structural adjustment programme on which we are embarked with IMF advise can and has improved the balance of payment position, there is no hard evidence that it leads to further economic growth and may, as in some countries, lead to negative growth and negative effect on investments. This is a sobering thought. Finally the open preference for the market —that World Bank and IMF Call Market friendly approach—raises many queries. The budget statement says "a reformed price system can be a superior instrument of resource allocation over quantitative controls" Will it ? Does this weaken the planning process in the economy ? Immediately after the above statement, the budget statement says "but markets can only serve those who are part of the market system .A vast number of people in our country live on the edges of the subsistence economy." The poser is whether the budget and the economy should be "market friendly" or "subsistence economy personnel friendly".

Railway Budget (1991-92)

The final Railway budget was presented to Parliament in July. The summary of the interim budget presented in February and this final budget is set forth below.

The most important factor in the above table to be noted is the jump in net traffic receipts from Rs. 345 crores in the interim budget to Rs. 1,089 crores in the final budget and the net railway receipts from Rs. 525 crores in the interim budget to Rs. 1,272 crores in the final budget which turns the deficit of — Rs. 512 crores of the interim budget into a surplus +Rs. 236 crores; along with the appropriation to the Railway Development Fund which was nil in the interim budget and which is Rs. 235 crores now and a sizeable fall in the operating ratio from 97.2 per cent in the interim budget to 91.8 per cent in the final budget. The increase in railway receipts and the consequences of it in the overall surplus and the provision for the Railway Development Fund is due to the increase proposed in the railway fares and rates as follows : a) freight ratios are to be increased by 10 per cent except for essential commodities in daily use like salt, edible oils, foodgrains, pulses, sugar, gur and jaggery and fruits and vegetables, as well as kerosene and diesel : b) rates for parcel and luggage are to be raised by 10 per cent : c) passenger fares for upper AC I Class, AC Sleeper, I class and AC Chair car to be increased by 20 per cent for distances upto 800 kms and 15 per cent for distances beyond : the special fares of Rajdhani, New Delhi—Bombay AC and Shatbadi Express are to be increased; fares for II class ordinary to be raised by Rs. 1 at the lowesr slab to Rs. 5 for distance beyond 400 km. Second class Mail/Express fares to be increased by Rs. 1 for lowest slab rising to Rs. 20 for distances beyond 1,300 kms: for monthly season tickets, increase from Rs. 4-16 according to distance travelled in II class and from Rs. 15 to 64 in I class. These proposals will come into effect from August 16 so that the Railway Act which requires 1 month's notice for any fare

Actuals 1989-90	Budget 1990-91		Revised 1991-92	Budget 1991-92 As presented in Feb. 1991	Budget 1991-92 As now proposed
				(in crores of rupees)	
10,739,41	12,060,00	(a) Gross Traffic Receipts	12,038.00	12,665.00	13,319,00
7,144.73	8,241 00	(b) Ordinary working expenses	8,241.00	9,270.00	9.180.00
1.715.00	1,950.00	(c) Appropriation to Depreciation Reserve Fund	1,950.00	2,050.00	2,000.00
728.00	900.00	(d) Appropriation to Pension Fund	900.00	1,000.00	1,050.00
9,887 73	11,091.00	(e) Total working expenses (b) + (c) + (d)	11,091.00	12,320,00	12,230.00
851.68	969.00	(f) Net Traffic Receipts (a) – (c)	947.00	345.00	1,089.00
130.39	149.00	(g) Net Miscellaneous Receipts	135.00	180.00	183.00
982.07	1,118.00	(h) Net Railway Revenue (f) + (g)	1,082.00	525.00	1,272.00
808.81	932.00	(i) Dividend Payment to General Revenues	927.00	1,037.00	1,037.00
+ 173.26	+ 186.00	(j) Surplus/Shortfall (h) – (i)	+ 155.00	— 512.00	+ 235.00
173.26	186.00	(k) Appropriation to Railway Development Fund	155.00	—	235.00
91.5%	91.8%	(l) Operating Ratio	91.8%	97.2%	91.8%
6.7%	6.9%	(m) Percentage of net Revenue before payment of dividend to General Revenues on the Capital-at-Charge	6.7%	3.1%	7.2%

and freight rise can be followed and any changes made by Parliament when approving the Railway budget can be taken into account. These proposals are estimated to yield Rs. 584 crores in the current year. The ordinary working expenses are reduced by Rs. 90 crores compared to the Interim budget. The Annual Plan of the Railways has been raised from Rs. 4830 crores in the interim budget to Rs. 5235 crores in the final budget and is an increase of Rs. 325 crores over the 1990-91 outlay. The priorities for the year are rolling stock traffic facilities, electrification, workshops and sheds and some renewal of track and other overaged assets. They do not include starting any new line or gauge conversion but to complete the new project lines totalling 2070 kms and 11 gauge conversions for 211 kms calling for Rs. 3,005 crores. The buzz word privatisation is used in the budget with the proposals to give catering and conservancy services to private contractors and operators. Whether this will improve the very poor passenger services and amenities remain to be seen. As usual a taskforce is proposed to prepare a 5-7 years blue print of the needed passage services. There are no new trains as the interim budget had announced 10 new trains and 7 whose services were extended till February this year. The freight performance in 1990-91 was 7 million tonnes short of the target of 325 million tonnes which is attributed to political disturbances. For this year the target is 335 million tonnes and in the first quarter this target has been exceeded at 80 million tonnes. For Tamil Nadu, the budget has a little lower allotment for MRTS at Rs. 13 crores against last year's Rs. 14.85 crores (of which Rs. 4 crores was returned unused, the completion of the electrification of the Jolarpet—Bangalore lines and Rs. 17.01 crores for the new BG line to Madurai. The Railway budget is what is to be expected in view of the serious financial crunch facing the government. In fact the final railway budget has not produced adequate resources for the country's needs. The acute shortage of rolling stock-wagons and locomotives, inadequate terminal facilities, the replacement of wornout railway lines, and the shortfall of coaches estimated at 1500 and the need to replace 5500 wornout coaches out of the stock of 28,000 are not going to be fully met. For the year, only 2100 coaches are to be acquired. There is also the problem of the effect of the rise in fares and rates on prices, earlier referred to. There will be no direct affect on prices of essential commodities consumed by the poor because no increase are proposed on their freight and the fares at that level are not being realised. But there will be a rub effect from the sharp rise in the prices of goods and services consumed by the upper and middle classes. Finally there is the question posed year after year, why is there a separate railway budget. Until the railway budget is amalgamated in the final budgef, it will not be possible to look at the railway proposals and plans in the context of the national needs and opportunities. This hangover of the colonial day ; should be ended. This hangover of the first structural reform that is again proposed. Further it is to be regretted that the advance railway budget discussion on the basis of issues and options facing the government, the railway and the country initiated last year (see Vol XX p232) has not been continued this year. The change in government and political party should not be the reason for changing a much needed and useful programme.

Economic Survey

The pre budget Economic Survey presented to Parliament on July 20

this year not only contained the usual assessment of the economy's performance in 1990-91 and a forecast for the current year, it had much more emphasis on the turnaround that the economy must make starting from now which involves a) hard days for most sections of the population, b) a rather harsh macro economic management policy to be set forth in the Budget presented on July 24, c) a cut in Plan and non Plan expenditure, including the defence outlay and food and fertiliser subsidies, d) a continued compression of imports, e) increased international competition of industrial products and f) expansion of rural welfare programmes particularly rural employment. While there will not be large increases in administered price, nor much higher indirect taxes, direct taxes are to be the main source of additional tax income as direct taxes yield have not kept pace with GDP increase. (This forecast was not realised). Petrol consumption is to be kept under check and a shift to natural gas as the energy provider is expected. On the whole the economic scenario painted by the survey is that of a grim picture. The survey recapitulates the many difficulties faced by the economy in 1990-91 due to political instability and the Gulf war which accentuated the country's fiscal imbalances and intensified the balance of payments strain. Despite all these obstacles, the economy grew, with agriculture and industry recording growth rates which may not be sustainable in the future. GDP in 1990—91 is estimated to have grown by 5 per cent but due to internal and external factors, the consumers have been subject to double digit inflation at 12.1 per cent during 1990—91 (compared to 9.1 per cent in 1989—90) which along with fiscal imbalances and the balance of payments deficit, faced the third oil shock, with oil prices shooting up to over $26 per barrel due to the Gulf war. In terms of Consumers Price Index, the inflation was 13.8 per cent against 6.8 per cent in the previous year. Money supply growth is influenced by both the budget deficit and the level of foreign exchange reserves. In 1990—91 money supply growth declined due to the large draw down of foreign exchange reserves. However money supply growth depends specially on the fiscal policy being related to monetary policy. The fiscal deficit at the end of 1990—91 was 8.4 per cent of GDP and the postponement of the 1991-92 budget worsened this situation. In 1990—91 the trade deficit widened fast because importe rose by 21.9 per cent, fuelled by the import bill for crude and its products. These various factors lessened foreign confidence in the Indian economy, so that borrowing abroad became difficult and the foreign exchange reserves declined from Rs. 5,050 crores in August 1990 to Rs. 4,388 crores in March 1991. The decline would have been much greater without the Rs. 1,173 crores, IMF loan in July-September 1990 (from India's quota) and a further Rs. 3,334 crores from IMF's CFF in January 1991. Foodgrains production is estimated at 176 million tonnes in 1990—91, sugar production 115 lakhs tonnes, tea at 719 million tonnes, but cotton was at lower level due to unseasonal rains. The budget provision for the debt relief scheme of 1990-91 was in deficit, and so the 1991-92 interim budget provided Rs. 1,500 crores to meet the deficit. The scheme contributed to the deterioration of the fiscal situation, the credibility and profitability of the Indian banking system and the farmer's incentive for the prompt repayment of his debt. Despite the Gulf crisis, industrial growth in 1990-91 recorded a growth of 8.4 per cent compared to be 8.6 per cent in 1989-90 with manufactures recording 9.2 per cent

compared to the previous years 8.6 per cent, due to the various export promotional measures to the VII Plan. But mining and quarrying declined from 6.3 per cent in 1989-90 to 3.5 per cent in 1990-91 and electricity from 10.8 per cent to 8.6 per cent. Infrastructure did not do well, with electricity, crude oil and refinery throughput delining, railways stagnating and floods and natural disasters damaging the infrastucture seriously. To highlight the role of health, education, employment, shelter, food and nutrition, in economic development and show how human resources reduces poverty and promotes social justice, the Economic Survey has introduced a chapter on Human Resources which gives a summary view of the progress made in these sectors. It repeats the government view that as a result of the anti-poverty and development programmes, poverty declined from 51.5 per cent in 1972-73 to 29.9 per cent in 1985-86. In education gross enrolment at primary schools have increased from 43.1 per cent in 1950-51 to 99.6 per cent in 1989-90, the literacy rates increasing from 18.3 per cent in 1951 to 52.1 per cent in 1691. But universal elementary education continues to be elusives due to high dropout rates and sex disparity ratios. Higher education institutions are proliferating but their quality and standards are low. In health, life expectancy has increased from 32 years in 1950-51 to 59 years in 1991, death rate has fallen from 27 per thousand of population to 10.2 but the birth tate has not declined and so the population growth rate is climbing, In housing (Hudco and National Housing Bank programme) water supply, sanitation and family welfare, both quantity are inadequate. The major concern with inflation, whose rates have been earlier referred, to is that it is concentrated on essential commodities. The Survey attributes inflation to a) fiscal imbalances, b) supply and demand imbalances in sensitive commodities and c) inflationary expectation. In particular the price of essential commodities is attributed to i) increased procurement prices of cereals ii) sharp increase in price of edible oils and iii) Gulf surcharge and increase in transport costs. The inflationary pressure continues in 1991—92. The interim budget provided for a budget deficit of Rs. 10,772 crores in 1990—91, the increase being due to i) additional loans to the states, ii) higher interest payment, iii) inadequate provision for rural debt relief (as noted earlier), iv) higher burden of food and fertilisers subsidies and v) shortfalls in revenue. The survey states that India's medium and long term debt at March 31, 1991 was Rs. 1,20,000 crores. This medium and long term debt comprising external assistance "aid" on government and non government accounts, external commercial borrowings and IMF liabilities was Rs. 80.136 crores in March 31, 1990, but with NRI deposits outstanding was Rs. 97,966 crores which went upto Rs. 1.2 lakh crores in March 31, 1991 as noted earlier. In 1990-91 exports increased by 17.5 per cent and imports at 21.9 per cent and so the trade deficit is higher by 38 per cent from Rs. 7730 crores in 1989-90 to Rs. 10,544 crores in 1990-91. Net invisibles also fell due to decline in Gulf remittances, tourist traffic slowing down and steady increase in interest payments on growing foreign borrowings. In the capital account, while net aid disbursement increased in 1990-91, other items show the severe strain on the balance of payments. Our exchange reserve which had declined to Rs. 4388 crores in March end 1991 further declined to Rs. 2386 crores at June end. The 3 borrowings from IMF (the reserve tranche in July-September 1990, Rs. 1173 crores, the CCFF loan of

January 1991 Rs. 1884 crores and the first credit tranche under a 3 month stand by arrangement, Rs. 1450 crores were earlier referred to. Devaluation of the rupee which the saving calls "adjustment downward" of the rupee was effected by 7-9 per cent on July 1, 1991 and a further 11 per cent on July 3 in relation to major currencies, resulting in an overall appreciation of these currencies by 21-23 per cent. To cut imports and reduce aggregate demand, RBI introduced on July 3 a package, raising the bank rate from 10 to 11 per cent and the bank's deposit rates and RBI's refinance ratio as from July 4. The government announced major structural reforms in trade policy on July 4 which include a uniform REP rate (to be called EXIM scrip and to be freely tradeable at 31 per cent of the FOB rate of the exports, abolition of all supplementary licenses except for SSI and drugs, suspension of CCS. Under the policy REP will be the main instrument for export related imports. It is expected that the devaluation of the Rupee and the reform of the export—import policy from July beginning will stabilise the BOP situation in the short term and improve the balance of trade situation in the production terms. The devaluation will help in the realisation of outstanding export payments, increase remittances and remove destabilising expectations of the market. Similarly it will stimulate export growth and curb import increases and so improve the balance of trade over the years. The REP system will give a new impetus to exports and ensure import compression, which with the fiscal adjustment that the budget will introduce will make our BOP viable. This is the Survey's perspective and the key to it all, the report states, is fiscal adjustment *now* to be *followed by* fiscal consolidation. The report concludes with this prescription as the only way to meet our balance of payments disequilibrium and keep inflation within manageable limits. The restoration of fiscal balance means that living on borrowing from abroad or within the country is out, we have to live within our means and for this the report concludes rather starkly "the time has come to adjust". With this perspective there will be general agreement — because there is really no alternative.

Plan

The Eighth Plan is to start on 1 April 1992, the Parliament was informed. The 1990-91 and 1991-92 Annual Plans are to be treated as annual Plans to be followed by the Eighth Plan. The government is now also finalising the appointment of members of the Planning Commission. Parliament was also informed that the new VIII Plan formulation will be completed before the end of the current year 1991-92 which will also enable the government to finalise the annual Plan for 1992-93. The budgets for 1992-93 will reflect the changed priorities that have been announced and put into effect as from July 1991.

Price

The rate of inflation for June was 1.2 per cent, the whole sale price index rising to 196.4 as at June 29. On a point to point basis inflation was 10.12 per cent for the year. It will be noted that both the Economic Survey and the Union Budget place the rate of inflation for the year ending 31 March 1991 at 12.1 per cent and the consumer price index at 13 6 per cent. The difference between the Economic Survey/Budget figures and those in this Bulletin is due to

a) the difference in dates, the Bulletin data being 3 months later as at 30 June when the base was higher (see Vol XX p227) and b) the difference between the average change which is the Economic Survey/Budget data and the point to point calculation which is the Bulletin data. In both data, the major impact of the inflation is on the essential and sensitive commodities—ragi, maize, rape and mustard seed, pork, pulses, eggs, condiments—which despite 3 continuing bounteous harvests seem to have no effect on inflation. The Economic Survey calls attention to the fact that the high fiscal deficit and the balance of payment deficit on current account increase the supply of reserve money and so fuel inflation. The government has therefore not been able to keep its election manifesto pledge to roll back prices of essential commodities, rather their prices are rising continually. The finance minister forecasts a 9 per cent inflation rate in 1991-92. The government has set up a cabinet committee on prices headed by the Finance Minister to monitor their trend in the 9 essential commodities. This can help signal the dangers of inflation of particular commodities, not avert them.

Stock Exchange and Budget

Parliament passed the vote on account of Rs. 1,15,942.22 crores for the period April-September. The government announced the first four new loans amounting to Rs. 2,000 for 1991-92, subscription to which are to be opened on August 5, 1991. The Statutory powers needed by the Securities and Exchange Board (SEBI) are still under consideration by the government. As of now its powers are uncertain, the Finance ministry devolving on it from time to time some powers, like transferring from RBI the power of inspection of mutual funds. There is also the need for controls on the stock market. The Bombay Stock market prices are decided by a small group of 6 market operators and 3 mutual funds. SEBI can replace the controller of capital issues, if companies are allowed to decide these programmes. SEBI has made credit rating compulsory but ratings are not statutory. Similarly SEBI has drafted a code for all types of corporate taxes and, which cannot become effective particularly as in almost every issue black money is involved. Hence the need for statutory powers for SEBI is urgent and inescapable. The first reaction of the stock exchanges to the devaluation and trade reform has been an upswing, their sensitive indices rising sharply. CBSE rose by 60 points. Some speculators ofcourse lost on the second devaluation on July 3 which they did not anticipate. In order to check the growing black money transaction, RBI issued a directive instructing banks not to allow transaction in cash—receipt or payments—for amounts exceeding Rs. 50,000. This would be one means of stopping the misuse of bank channels for laundering black money. RBI has also issued revised guidelines on credit planning and monetary control under the services area approach introduced in April 1989. These guidelines now include semi-urban and urban branches and new formats have been issued for integrating priority sector lending by the semi urban and urban branches of banks. This will bring some order into the credit system.

Economy

The major event in the economy in July was the devaluation of the rupee in two stages. On July 1, the Rupee was devalued by 8.5 — 9.7 per cent,

which was a 8.6 per cent of the regression dominated basket corresponding to a basket appreciation of 9.4 per cent and on July it was devalued by 17 to 19 per cent in terms of US dollars, pounds sterling, deutsch mark and Japanese yen and from the point of view of these currencies, their value rose by 21 to 23 per cent in Rupee terms. There were many official reasons given for its devaluation, that the rupee was overvalued and was therefore hurting our exports· that one steep drop is preferable to the current creeping depreciation of the Rupee etc; but the real reason which has not been admitted officially is that the country needs a large external loan of the order of SDR 5 billion, that the only source now left for the loan for the country is IMF, and IMF has established the devaluation of the rupee as one of the conditions for granting the loan. The effects of the devaluation will be positive in the short run. It will boost our exports as exporters will earn some 18 per cent more and further compress imports as they will become some 20 per cent more costly. But equally it will increase our external debt by that percentage. Our external debt has increased from Rs. 100,000 crores to Rs. 1,36,858 crores and interest on it Rs. 1034 crores, while our internal debt is Rs. 1,70,834 crores and interest on it Rs. 10,416 crores. An accompanying and consequential decision was in the external trade area, wherein the CCS has been abolished in view of the additional income that exporters will earn, and when imports have been further compressed by the decision that imports can only be made against REP licenses and REP lincenses are to be traded freely. In macro terms, these decisions are justified, but there are individual industries and groups of industries like garments exporters which have been hit by the abolition of CCS as are all exports to Rupee payment countries : similarly some industries like diesel engines essential for the economy which depend to the extent of 90 per cent imports for their functioning like MICO will be hard hit—infact face closure through making imports depending on the exports of a firm. These individual cases need attention in the coming weeks. As a further consequence of the devaluation, the Reserve Bank made changes in monetary policy to curb imports. First the Bank rate was raised from July 3 from 10 to 11 per cent and all other rates on credit from RBI are raised by 1 percentage point, Second, interest rates on deposits a) 40 days to 1 year from 8 to 9 per cent, b) 1 year to 2 year from 9 to 10 per cent c) 2 years to 3 years from 10 to 11 per cent and d) 3 years and above 12 to 13 per cent. This would enable banks to finance their loans out of their own resources and to compete effectively with alternative savings instruments. Third, to reduce aggregate demand in the economy and taking into account the increase in deposit rates, the lending rate on limits of over Rs. 2 lakhs raised from 17 per cent to 18·5 per cent, the effective interest rate on discounting bills of exchange will be 1 percentage point below the corresponding lending rate. There will be no change on the rates on loans to agriculture, small scale industry and transport operators. Fourth, in consonance with the increase in the bank rate and to align refinance rates with the increased lending rates, the interest rate on export refinances is raised from 9 to 9.5 per cent, stand by refinance from 12.5 to 13.5 per cent, discretionary refinance from 14 to 17 per cent and food finance from 11.5 per cent as minimum to 14 per cent as maximum. While the Rupee devaluation referred to

earlier will help raise exports and curb imports, the hike in the interest rate would encourage savings and reduce aggregate demand, and so curb the severe external payments imbalance in the economy and give the signal to the IMF, World Bank and donor countries of India's resolve to put the economy back in shape, stop the flight of capital and clear the way for quick loan disbursements. The other important event in July was the Presidents address to both houses of Parliament on July 11 in which he unfolded the government's economic strategy comprising high priority to reduction and protecting the interest of the weaker sections of society. He stated that the country had been living beyond its means and adopting soft options and now the price has to be paid in some hard and unpleasant decisions which have to be made. The balance of payments management is one of the areas where difficult decisions to make for a turn around will have to be made. It was noted that the President also avoided using the straight forward term 'devaluation' and spoke in terms of 'adjustment in the exchange rate'. He spoke of the budget and other government policy, taking corrective measures in the trade policy, industrial policy (which 1990-91 recorded an industrial growth of 8.4 per cent against the previous year's 8.5 per cent) to enhance competitiveness of exports, limit growth of money supply and cut government expenditure. Small savings have to be increased, incentives offered for higher production, strict fiscal discipline to keep the budget deficit within manageable limits, checks on government of black money and changes in procedures to induce foreign countries and NRI investment in India were referred to. He also referred to the reform of the public sector, in which a policy of disinvestment, including worker's participation in equity and 'vacating' areas of activity where public sector need not be involved, as the private and joint sectors had developed capabilities in these areas. Apart from a reference to an estimated 177.2 million tonnes of foodgrains production in 1990-91 and the previous reference to the industrial growth rate for the year, there was absence in the President's address the usual recounting of the economic achievements and events of the past year (mainly because there were few, almost none). Assurances on early completion of the VIII Plan, more emphasis on Science and Technology in the Plan, expansion of ICDS, improving the quality of water for the Plan, expansion of ICDS, improving the quality of water for the rural poor, increased employment through IRDP and Jawahar Rozgar Yojana, a National Institute of Biologicals to further strengthen the health care system, reviving the National policy on Education, giving literacy and universal primary education primacy and control of inflation and improved PDS and strict enforcement of the essential commodity Act to prevent hoarding, profiteering and black marketeers are referred to. The address is important in giving a clear and unmistakeable warning that the budget is to be presented in 2 weeks and a number of bills and resolutions during the session will be dealing with the economic crisis of 'uneconomic magnitudes'. This is its main message. Another event that has attracted Parliaments' interest and attention is the export of gold. RBI pledged 25 tonnes of confiscated gold in May for which it received $20,000 as noted in the last issue. With the concurrence of the government, RBI exported 46.91 tonnes of gold from its reserves of 330 tonnes to the Bank of England during July against which it can borrow $500 million. These two action in May and June were undertaken to meet

our foreign debt servicing obligation. The RBI Act allows 15 per cent of the Bank's gold stock to be held abroad. This provision is now exhausted with the export of 46.9 tonnes of gold from its reserve. The government has pledged to repurchase the gold, which is not necessary as gold reserves is meant to meet emergency like this. IMF announced a bridge loan of $220 million on July 17 from its contingency compensatory fund to enable the government to meet its foreign debt obligation. On the general economic scene, the commerce ministry announced at the end of June that more powers are being given to Development Commissioner of the Export Processing Zones (EPZs) and 100 per cent export oriented units (EOUs) in order to provide flexibility to exporters to adjust their product mix in response to the international market demand. The Consumer Corporation of India records impressive growth in the first quarter of the current year and will realise its huge target which has been set at 40 per cent increase for 1990-91. The ministry of finance announced, following the budget presentation, that the export panel to consider the structure, organisation, function and procedures of the financial system will address itself to the health of the banking system, the loss of its credibily following the loan waiver scheme, and the rigidities and weaknesses that it had developed and how its basic role as an essential agent to economic growth and competitive efficiency can be restored. The panel is to be chaired by the former finance secretary, M. Narasimhan and should submit its report in 3 months. The role of black money in the country has entered serious proportion which the Income Tax Commissioner estimates at Rs. 50,000 crores being generated every year and being about Rs. 300,000 crores as a stock. This large unregulated sum could defeat the purpose of the macro economic adjustment, and the fiscal and economic policy correctives being brought to the economy as discussed above. Another worrying issue is the leakage in tax collections. The Comptroller and Auditor General calls the attention of the Union Excise and Customs Department to the under assesment of the tax and loss of revenue of Rs. 231.47 crores. On customs Rs. 543.64 lakhs will be the loss and on excise Rs. 117.72 lakhs. This is a sample of the loss on tax collections. Similarly he finds gaping holes in the summary assessment scheme of the IT department where he estimates a revenue loss of Rs. 782 crores for 1988-89. On the economy, CMIE forecasts both inflationary and anti-inflationary forces at work in 1991-92. The reduction in the budgetary expenditure and fiscal deficit on the one hand and increase in commodity taxation and administered prices on the other, with price increase of about 8 per cent need watching. Real income is projected to increase by 4 per cent in 1991-92, the first year when the impact of the balance of payments crisis will be felt. This implies a fall of one per cent in growth compared to the 5 per cent growth estimated in 1990-91. This is also the forecast of the finance minister. The small growth in 1991-92 is forecast as being due to the smaller growth in agriculture and the industrial growth rate will be affected by the import restrictions now in effect and industrial growth is forecast at 7.3 per cent. Finally of importance is NCAER's quadrennial household survey covering the years 1986-1990 which takes incomes at constant prices, after adjusting for inflation, where low income group is defined as those with less than Rs. 12,500 per annum, lower middle class those between that and Rs. 25,000 p.a., upper

middle class those between that and Rs. 56,000 p.a. and higher income households those with Rs. 56,000 p.a. and above. The survey shows 1) the highest growth of population as among middle and high income groups, with rural low income households showing a decline, 2) cities with population of 1 million and above and smaller cities had low population of middle class income households 3) 58 million households or 3000 million belonging to lower middle class and middle class use such products as transistors, radios, cooking oils, tea, toothpaste, toilet soaps, washing cakes, PVC footwear, tooth powder. 4) The low income and lower middle income households account for 25 per cent of these purchases, rural India having a dominant share of consumer products and consumer durables. 5) The number of wrist watches in the country is 120 million, bicycles 60 million, radios 59 million, washing cakes were bought atleast once during the year by 133 million households (out of a total of 142 million), tea by 112 million and toilet shop by 124 million. 6) If the purchase of consumer goods indicates a middle class, that could not be equated with a particular income group as the purchases run through all income groups. 40 per cent and more of consumer products were purchased by lower income groups, and so it is necessary to use other than income to classify the middle class. 7) A household that pays no rent or cultivates its own land, or is living on subsidies in the defence forces has more disposables purchasing power than a household living only on its income. The survey show that consumer products have penetrated the rural areas and poor households. 8) Our middle class is unique, they have started to buy consumer products and durables, many of them are not educated upto to SSLC, but they are in the market for manufactured products. 9) Below them are the under class-the poor-numbering 14,895 in urban and 68,914 households in rural areas (with incomes below Rs. 12,500 p.a.), have not bought consumer products but through TV are exposed to the products and see some of their number becoming consumers. So there is the start of rising expectations.

Trade Policy Reforms

As part of the 4 point package of the restructuration earlier referred, the trade policy has been subject to a major reform comprising : a) the suspension of cash compensatory scheme (CCS) from July 3, saving over Rs. 3000 crores in export subsidy, b) replenishment licensing scheme (REP) to become the principal instrument for export related imports. It will be called Exim scrips and will be freely traded, c) All exports to have a uniform REP rate of 30 per cent of the Freight on Board (FOB) value, replacing the present 5 to 20 per cent of the FOB value. Special rates for gems and jewellery and metal based handicrafts and books and magazines will continue. d) The new REP scheme to give maximum incentive to exporters whose import intensity is low, such as agriculture exports. e) All supplementary licenses are abolished except for small scale sector and producers of life saving drugs who can import under OGL or supplementary licenses. f) All additional licenses granted export houses are abolished-except for REP rate of 30 per cent of FOB plus an additional REP of 5 per cent of FOB value. g) All items in the limited permissable list now to be imported through REP. h) Unlisted OGL contained in the Excise policy are abolished and all to be imported through the REP schemes. i)

Advance licensing for obtaining imports for exporters will remain open. REP rate for advance licensing for exports is being increased from 10 per cent of Net Foreign Exchange (NFE) to 20 per cent of NFE. j) All import licensing for capital goods and raw materials except for a small negative list to be removed in 3 years. k) All items to be decanalised except that are essential. Major changes in entire canalisation policy to be announced. l) Financial institutions will also be allowed to trade in. Exim scrips. In due course, the Exim scrip to be replaced with foreign exchange certificates which will be tradeable. m) The Rupee expected to be fully convertible on the trade account in 3 to 5 years. This reform of the trade policy is aimed at a structural reform which will give fiscal incentive promoting exports and a liberal REP system. There are problems in the operation of the new system such as the future of cheap export credit, the export control regulation which do not require exporters to quote these export bills in convertible currency. As the system functions, these problems will have to be solved.

Industrial Policy

On July 24, the government announced a new industrial policy which basically shifts decision making on investment from the government (Minister / Ministry) to the entreprenuer. This also is part of the total package of economic policy reform referred to earlier. Its main elements are: a) licensing dispensed for all industries except 18 including coal, petroleum, sugar, motor cars, cigarettes, hazardous chemicals, drugs and chemicals and some luxury items. b) All registration schemes including that of DGTD are abolished, entrepreneurs have only to fill an information memorandum on new projects and expansions. c) MRTP Act is to be amended to remove the threshold limits of assets of MRTP companies and dominant undertakings. d) The newly constituted MRTP commission to be given more powers to initiate investigations suo moto or on complaints received about monopolistic, restrictive and unfair trade practices. e) MRTP Act to be amended to a) remove the proviso of prior approval of union government for new units, expansions, mergers, take overs and appointment of directors and b) to bring under its purview public sector undertakings. f) Reservation of items for small scale industry to continue. g) The preeminent place of the public sector in 8 core areas like arms and ammunition, atomic energy, mineral oils, rail transport, coal and minerals to continue. h) Automatic clearance for import of capital goods provided foreign exchange is ensured through foreign equity. i) With foreign exchange position improving from April 1992, automatic approval of capital goods imports for upto 25 per cent of plant and machinery subject to Rs. 2 crores limit. j) Existing and new industrial units provided broad banding facility to produce any article if no additional investment in plant and machinery required. k) Mandatory convertibility claim for financial institutions converting loans into equity dispensed with. l) Direct foreign investments upto 51 per cent equity in 34 high priority industries. Companies with 50 per cent foreign equity to be encouraged to be export trading houses. These include commercial vehicles, two wheelers, inorganic fertilisers, chemicals, manmade fibres, drugs and pharmaceuticals, paper, tyres, portland cement hotels, food processing, sugar products

and industrial and agricultural machinery. Outside of this foreign equity participation in excess of 51 per cent to be granted by the empowered Board. m) Expatriation of dividends to be through export earnings. n) Foreign equity proposals need not be accompanied by foreign technology agreements. o) A special board to be constituted to negotiate with international firms and approve direct foreign investment in selected areas. p) Automatic permission for foreign technology agreements in high priority industries upto a lumpsum payment of Rs. 1 crore, 5 per cent royalty for domestic sales, and 8 per cent for exports, subject to total payment of 8 per cent of sales over a 10 year period from the date of agreement or 7 years from commencement of production. q) No provision needed for hiring foreign technician or foreign testing of locally developed products, with payments to be made from blanket permits or free foreign exchange. r) Public sector investment to be reviewed s) While reservation of industries for the public sector remains no ban for opening such areas to the private sector selectively. t) Public sector to be allowed entry into areas not reserved for it. u) A part of government's share holding in the public sector to be offered to mutual funds, financial institutes, general public and workers. v) Chronically sick public sector units to be referred to BIFR for formulation of rehabilitation schemes. w) A social security mechanism to protect workers interested in such affected public sector to be set up and new policy to promote workers participation in management and workers cooperation in order to make sick units healthy. x) A set of measures to prevent industrial pollution of cities and ensure environmental control. y) The review of existing portfolio of public investments to examine with greater realism all public sector industries based on low technology, those in small scale and non strategic areas, those in areas with nil or low social considerations or public purpose, inefficient and unproductive enterprises and units in industries where private sector has developed sufficient expertise and resources. A package for the small and tiny sector is to be announced separately. This reformed industrial policy is part of the reform of economic policy. It is difficult to evaluate it at this early stage. One welcome feature is the delicening, deregulation and debureaucratisation which is over due. The last clause of the public investment withdrawing from low priority, routine areas and those in which the private sector has developed experience—if this is what is meant by privatisation (an ugly word recently coined) it should be welcomed. The queries relate to complete abolition of control over monopolies and oligopolies (which exist in all industrial countries) and the repeated emphasis on 51 per cent foreign equity participation. These need to be watchad. Probably the most serious question is while entry has been made free, there is no provision for exit of unviable enterprises. This is serious. Further there is a good deal of small fine print as in clause K & L of the note, which need further study. On the whole, the freeing of Indian industry, including the public sector from the accumulated shackles of over 40 years should give a spurt to industrial development in the country. The policy should also be employment generating on which nothing is said.

Industry

CSO reports that the industrial output index rose by 4.3 per cent in February, giving a rise of 8.6 per cent for the 11

months, April 1990-February 1991, (the Economic Survey records 8.4 per cent for year 1990-91) with manufacture doing better at 9.2 per cent compared to the previous year's 8.6 per cent. The sugar industry has recorded 116.74 tonnes sugar production in the eight months ending May 31, 1991 (which is higher than the 1989-90 whole years 109.88 (lakh tonnes) and might exceed 120 lakh tonnes for this year. There is scope for sugar exports, taking advantage also of the Rupee devaluation and the Foreign Exchange certificates. BIFR has recommended setting up an independent agency to physically oversee execution of turn around programmes by it for sick industrial enterprises. This would change the current practice of direct package negotiations between the promoters of a sick unit recommended for rehabilitation and financial institutions and banks, pushing the latter to the background. The financial institutions and banks have not done well on industrial rehabilitation and this would be a corrective. In regard to the new industrial policy inviting foreign firms and nationals to invest 51 per cent equity in select areas and for which a specially constituted board is being set up with enough flexibility to examine these offers on a case by case basis, a study by a Washington Research Organisation points out that Foreign Direct Investment (FDI) has the same potential for creating gains for efficiency growth in the 90s as trade had in the 50s and 60s. It points out that while by the end of 1989 companies from US, UK, Japan, Germany, and France owned nearly $1 trillion of direct investment assets abroad, 70 per cent of which were acquired in the 80s, most of the FDIs were by the industrial countries themselves. The stock of FDI in 1989 owned by the 5 major industrial countries was US ($389 billion), UK ($226 billion), Japan ($158 billion), Germany ($91 billion) and France ($69 billion). The fear of FDI, it says, is a hangover from the protectionist thinking in the trade field.

National Production Front

Steel

The data on steel in July is positive. It is reported that the SAIL plants have broken the low performance syndrome for the first time since inception. The five plant produced 2.39 million tonnes of hot metal, 2.17 million tonnes of crude steel and 1.80 million tonnes of saleable steel during the first quarter of April-June. Steel product exports recorded a 30 per cent increase in the quarter at 51,500 tonnes and plan to double their exports in the second quarter to 1,25,000 tonnes. To diversify and expand its product range for exports, SAIL has included engineering goods made of steel in the exports list. Steel output is planned at 7.7 million tonnes for the year. It is also planned to add 10 million tonnes (Rs. 28,000 crores) capacity by the end of the IX Plan. Even all this leaves, the steel industry in India far behind that of China.

Crude

The news on crude in July is not encouraging. ONGC, in addition to the $1100 million loan from World Bank, ADB and Japan which it has received, is looking for $2000 million more of resources for execution of the remaining projects in the pipeline. This needs some study and control, because that kind of money is simply available. Further, ONGC records a fall of Rs. 554

crores in its profits for 1990-91 and attributes this decline to the new accounting systems relating to the writing off dry wells and revaluation of external commercial borrowing due to devaluation of the Rupee. But the major reason is the decline in its production which it glosses over. It accepted in its MOU a target of 33 million tonnes and it produced 3.3 million tonnes below the target. That was the main reason for the fall in profits. Again for 1991-92 against the target fixed by the Planning Commission at 34.1 million tonnes, it is expected to produce a little over 27 million—which is about the same as in 1990-91. Against this background, its demand for a 50 per cent increase in domestic crude price is unconvincing. Some increased items have to be cut that would be to set off against the increased cost of the crude import bill of Rs. 1000 crores due to the devaluation.

Coal

The coal situation in July was very bad. Cuts in coal to western and southern India has been over one per cent, causing severe hardships to industries in Gujarat, Maharashtra, Karnataka, Tamil Nadu and parts of MP. The non core sector in these states—rayon, paper, heavy chemicals, vanaspati, cotton, sugar, and polyester report that they have cut their production programmes to 10 per cent and some are on the point of closure. Because of Singareni not being able to raise the coal it mines, even the core sector in the South—thermal plants and cement units—are starved of coal supplies. This is a serious crisis for the states and the industries and the claims that coal production has increased to 31.72 million tonnes in April and May 1991 from 29.72 million tonnes in April and May 1990 and that in 1990-91 output was a new high makes no sense in terms of the coal supply situation in these states. A hike in coal price is expected. The ministry is pressing for it and cabinet approval is awaited. The other depressing piece of news is that the country imports Rs. 600 crores worth of coal (3.5 million tonnes) for the steel mills. This is a heavy drain on the very slender foreign exchange of the country. More efforts should be made to use Indian coking coal, particularly the new deposits which have been discovered with low ash content

Non Ferrous

The chief item in July was the report that during the quarter April-June 1991, Hindustan Zinc produced 120 per cent of its zinc target at 17,399 tonnes and 108 per cent of its lead target at 6,248 tonnes. Also the production of 6586 kg of silver and 48,965 kg of cadmium by Hindustan Zinc were on target and to that extent a saving in foreign exchange. NALCO reports that it will produce 5.2 lakh tonnes of aluminium this year, up from 4.5 lakh tonnes for 1990-91 and will export 60,000 tonnes and the private sector 10,000 tonnes.

Agricultural Production

The resumption of the South West monsoon after a 20 days delay on July 20 in the northern agricultural area—of MP, UP, Haryana and Punjab is a source of relief and makes the foodgrain target of 182.5 million tonnes possible. Between June 1 to July this region suffered a rainfall deficiency-20 to -59 per cent but after that has received copious rains. The kharif strategy is being worked out by the farmers, the state government have been asked to make adequate

supply of power and diesel to the farmers to make up for the delayed monsoon through adequate irrigation. So far there has been no drying up of crops reported by any of the states in the belt nor any attack of pests. There is a problem with the imbalance in foodgrain production in the country with 15 per cent of the cultivated area producing 50 per cent of the growth in agricultural output (Punjab, Haryana, West UP and parts of Tamil Nadu and AP). The growth of foodgrain products is 126 per cent in the northern region, 36 per cent in the central region, 23 per cent in the eastern, 38 per cent in the southern and 32 per cent in the Western region. The difference is due to the failure of the green revolution to make an impact on rainfed areas. Only 50 million hectares out of the total gross cropped area of 130 million hectares is irrigated. The eastern region gives cause for concern with a declining growth rate in production. Hence several crop yield programmes are being implemented in that region. The programmes are Integrated Programme for Rice development (IPRD)' the Special Foodgrains Production Programme (SFPP) for wheat, maize and millets, the special Jute Development Programme (SJDP) and the scheme for conjunctive use of surface and ground water to maximise agriculture production. The states covered by the programme are East UP, Bihar, West Bengal, Orissa and East MP. While the region accounts for an area of 57 per cent under rice and 33 per cent under wheat, 24 per cent under maize and 23 per cent under sugar cane; its contribution to total foodgrains production is only 45.4 per cent in 1988-89 and only 45 per cent to total rice production. Hence the programme now underway on accelerating the growth of yield and production of rice is urgent.

Foreign Trade

The trade deficit during April-May 1991-92 declined by 78.4 per cent compared to April-May 1990-91 from Rs. 8114.28 crores to Rs. 2680.18 crores at Rs 240.16 crores ($118.96 million). The monthly BOP gap during 1991-92 has been estimated at $400-430 million which is the difference between the total inflow and total outflows on both current and capital accounts In the previous years, the gap was the same and was met by commercial borrowing. NRI deposits or drawing on foreign exchange reserves. These three sources are no longer available for these years (the 1989-90 NRI inflow of $1.3 billion stopped in 1990-91 and so 46.9 million tonnes of gold was pledged with the Bank of England for a one month loan of $400 million). It remains to be seen as to how the package of policy reform will affect this forecast estimate. The withdrawal of CCS affects exporters to the Rupee trade area, as many of them without CCS will be losing and so there may be defaults in export contracts to the Rupee trade area. This is also true for value added marine exports which may be affected. This needs attention. In the remaining 7 month, exports are expected to rise by 16 per cent in dollar terms by FIEO. On individual items cotton handloom exports rose by 20 per cent in 1990-91. Engineering exports rose by 46 per cent in April 1991 but for the rest of the year may stagnate because imports constitute 25 per cent of the export turnover and the restriction on imports will affect the exports.

Aids and loans and External debt

On the aid/loans side the World Bank bridge loan of 150 million to assist the oil and gas sector with its additional

imports, the IMF energy loan of $220 million under CCFF, the $200 million against the 25 tonnes of gold shipped as security by the Bank of England and Bank of Japan have been earlier referred to. ADB approved a $6 million loan to the International Centre for Integrated Mountain Development for the development of sustainable mountain agriculture in the Hindu Kush—Himalayan region. Sweden has provided a grant of $65 million towards the country's poverty alleviation programme. On India's *external debt*, as a result of the devaluation, India's external debt has increased from Rs. 1,31,000 crores to Rs. 1,62,000 crores from 38 to 47 per cent of GDP. This has serious implication for India's debt servicing which according to the Finance ministry for the first time turned net transfers to India negative by Rs. 936 crores. That is, gross borrowing of commercial borrowing during 1990-91 amounted to Rs. 3050 crores, while servicing the commercial debt was Rs. 40006 crores—including Rs. 2137 crores for amortization and Rs. 2137 crores as interest payment. There are many reasons given for this serious situation, such as the downgrading of India's credit rating for long term loans, the postponement of the regular budget, the Gulf crisis and its effect on the balance of payments, the sharp decrease in foreign remittances especially from the Gulf, and the decrease of credit from foreign commercial banks who were concentrating on strengthening their capital base and reducing their credit expansion. All this is no doubt true, but for India the major lesson is that relying on external commercial borrowings to finance the current account deficit has brought the country to this pass and this should be immediately stopped and the current account deficit reduced as fast as possible and pursued within India's resources.

International

World Bank/IFC

At long last, after some hard negotiations with the US which on grounds that the World Bank itself should divert 50 per cent of its loans to the private sector in each country had raised objections. The International Finance Corporation of the World Bank has been allowed to increase its capital by $1 billion — from $1.3 billion ro $2.3 billion. This was the result of a compromise under which the other countries agreed to review the World Bank charter to give greater emphasis to the private sector. This is the kind of pressure which does not help even the private sector.

World economy

The UN annual world economic survey states that the growth of world output slowed in 1990 to 1 per cent, down from 3 per cent in 1989 and 4.3 per cent in 1988. The slow down was particularly sharp in the second half of 1990, worsening prospects for the following years, with perhaps the second half of financial resources from developing to industrial countries of $32 billion in 1990, so that for over a decade now the developing countries will carry their debt for another decade, as they have done for over 10 years. The economic slow down in 1990 was sharpest in UK, Canada and US with all major economies in recession and Europe and USSR registering the worst drop in economic activity since the war, contracting by 11 per cent. South and South East Asia with 6 per cent growth was the world's fastest growing region where apart from Malaysia and Korea which did very well, India, Pakistan, Burma and Sri Lanka did better in 1990 than in 1991. Africa

has recorded a sharp decilne. It finds it difficult to assess the impact of the Gulf crisis separately from other factors. Even though world economy is forecast to pick up towards the end of 1992, the survey refers to many uncertainties which call for industrial countries adopting a policy mix to stimulate economic growth, keep down unemployment and invigorate the economies of the developlng countries and USSR. The IMF study on "the domestic public debt of externally indebted countries" show the close link between two in the group of 15 countries studied when the average ratio of domestic public debt to GDP rose from 10 per cent in 1981-82 to 16 per cent in 1987-88 and 25 per cent and 1990-91. The growth of drastic public debt has led to sharp increase in debt service payments, which have depressed public investment and promoted higher inflation which has averaged more than 200 per cent a year. The link between the domestic and external debt is that the higher the government's net worth, the greater would be its ability to service its external debt and the lower the secondary market discount on that debt Here the industrial countries which are in a similar position, through their ability to raise revenue from efficient tax collection and a wider tax base are able to generate fiscal surplus that help their economies to move forward. This the developing countries also should learn to do. A new World Bank study predicts that regional disparities in growth which became sharp in the 80s will continue. It says that the unlike the likelihood of convergence and as the uncertainty about aggregate growth intensifies, the risk is that the number of the absolute poor in the world will rise gradually—particularly in South Asia and Africa south of Sahara which have become net exporters of resources.

World Development Report 1991

The World Bank's World Development Report 1991 sets the agenda for development, brings together the various separate aspects of development dealt with in its past Development Reports. In this report the interaction between government and markets is deemed as the central issue of development. It advocates a synthesis of the government and markets, the governments yielding to the dictates of the market. "Strategies in which government support rather supplant competitive markets offer the best hope for meeting the challenge of development" it says. But while for decades the Bank has been asking economies "to get the prices right", the 1991 report asks both industrial and developing countries to get macro economic policies right. While so far South Korea was held up as a model, in the report the role of the states in the East Asia miracle is acknowledged. Why has Japan succeeded in development and not others, and it answers the question by pointing out that Japan facilitated a judicious mix of state intervention and the operation of a competitive market. The report recognises that no free market has ever eradicated poverty, and so states intervention and funds are needed to alleviate poverty—even in countries like the US. In place of growthmanship the report says "the challenge of development in the broadest sense is to improve the quality of life", which it sees in a free market carrying this social justice facilitated by states intervention. A large part of the report examines the role of education in economic development and the building of indigenous technological capacity. Its emphasis on development of human capital and indigenous technological capability includes the statement that "no country has been able to build a modern

industrial economy without first tackling mass illiteracy". There may be a tendency to overemphasise education as an equaliser which leads to the neglect of land reform and distribution issues. The report marks a middle ground between elitism and free marketeers and stresses that the 2 have to be brought together in varying degrees for macro economic policy reform which economic development calls for. Its two boxes on economic reform (box 6.2 and box 8,1) bring out the mechanics of the reform process—the gradualism vrs the shock treatment method (box 6.2) and building reform because of external aid and not through internal consensus (box 8.3). In this connection, the section of the report on the sequence of reforms, when stabilisation policies work on the demand side to reduce inflation and external deficits, structural policies are concerned with the supply side addressed to resource use, efficiency on trade, finance and industry, for adjustment programmes suggested by the World Bank and IMF address internal and external imbalance. The study shows the strong association between adjustment programmes and improvements in the balance of payments, but the effects in growth is less clear. The report refers to one study which found a negative effect of the adjustment programme on growth but after 3 or 4 years there is a positive association. (In relation to the adjustment programme now under way in India, the effects on growth this year should be accepted as being negative, as pointed out earlier.)

UNCTAD

As UNCTAD VIII is being prepared in the UNCTAD Trade and Board where instead of arriving at a consensus on protectionism and structural adjustment vis a vis the Uruguay round, a North vrs South battle is shaping up. Industrial countries want to focus on the 'management' of the national economies of the developing countries. They are resisting all attempts by the developing countries to discuss the state of management in the world economy. This is a regrettable development as it means that UNCTAD VIII will waste its time in a North—South battle.

World Food and Population

The problem particularly in the developing countries of food production not keeping up with population increase was debated at the consultative group on International Agricultural Research meeting at IRRI in the Philippines. The world population crossed 5.4 billion in the second week of July and according to UNFPA will reach 8.5 billion by 2025. But land planted to major cereals has not increased since the mid 70s and yields have plateaued off as improved seed have reached their technological limits. There was agreement that in face of this situation, there is no alternative to population limitation.

SAARC and ASEAN

The ninth council of minister of SAARC meeting in July agreed on instiutionalising cooperation in tourism and trade and manufacture and services. This institutionalising of trade relations and the decision to give the most favoured treatment to each other in trade is a major breakthrough for the region. The six member South East Asian Association (ASEAN) in the summit meeting in July have agreed to establish a free trade area by 2000.

This decision to allow the free flow of goods among the 6 countries is also a major development. It is to be hoped these developments of SAARC and ASEAN will not weaken their fight for freeing trade at the Uruguay round which is still going on with the same loss of steam.

* * * * * *

II. Agricultural Development in Tamil Nadu

Paddy and other crops

With the rains in July, farmers have begun ploughing and preparing the land growing seedlings for the kuruvai crop. The release of water from Mettur from July 21 has enthused the delta farmers, who after a gap of 6 years have begun their work for the short term kuruvai crop. They expect to extend the kuruvai crop over 3.25 lakh acres in the Thanjavur district and 75,000 acres in the Tiruchi district Also adequate quantities of the short duration ADT-36 are being readied for the kuruvai crop. The cooperative central banks in Tiruchi, Thanjavur, Kumbakonam and Pudukottai have geared themselves to extend the short term loan to the farmers for the crop. The water released from Mettur reached the Grand Anicut on July 25. The Kuruvai crop can yield 5 to 6 lakh tonnes of pulses. But all this is based on the assumption that the interim order of the cauvery water tribunal will be carried out. The Karnataka government has passed an ordinance which nullifies the interim order of the tribunal and the union government has referred the matter to the supreme court, which means that nothing can happen with regard to the interim order now. But the plentiful inflow into the Mettur due to the rains in the catchment area of the cauvery and the overflow of the KR Sagar and Kabini reservoirs will ensure the kuruvai crop. The farmers also will be raising samba paddy out of the 1.10 lakh hectares planted. The only dark spot is that the dry crops like cholam and cumbu could not be cultivated because of the poor SW monsoon in this area.

Research results

On the 36 research reports recorded in July, a group of 4 reports are of particular interest to the farmer as their results can be applied immediately.

Of the group of 3 research reports on rice, one from the agricultural research station of TNAU Vellore which has tested 11 different crops in the irrigation water polluted from the tanneries effluent at Ambur finds that COI maize, CO13 ragi, Africa's tall maize, and BN2 grass yield higher, product and fodder and can be used now by the farmers in Ambur and the surrounding villages in North Arcot : the second from the Bhuvaneswar agriculture college finds that iron chlorisis in rice particularly in Coimbatore, Madurai and upland areas can be countered by broadcast soil application of inorganic salts, foliat spraying and application of ammonia sulphate and can be used by the farmers in the area; the third report is

from FIPPAT, padappai which shows that seed treatment with fungicides can stop seed rot disease of rice and can be used now by farmers facing the problem. A second group of reports will help farmers growing other cereals: for the sorghum growing farmers facing sorghum insect pests the midge resistant sorghum varieties developed by ICRISAT should be used: the regional agricultural research station, Tirupathi recommends to the pulse growing farmers, green gram varieties PS—16, PIMS—4, ML—267, Pusa—105 and LGG—127 as high yielding summer pulse crop: TNAU, Coimbatore reports to help chick pea growing farmers that the suitable varieties should be grown as a post monsoon rainfed water crop prefereby during the first fortnight of October, the agricultural college and research institute states that cotton farmers should know that sequential inter-cropping systems, cotton and black gram followed by radish (3 crops) improved yield of cotton one could be followed by cotton, blackgram—amaranthas and cotton black gram — coriander which yields between Rs. 16,000—Rs. 17,000 per hectare: TNAU water technology centre recommends that farmers using gravity flow irrigation can apply herbicides to crops planted in rows or beds that are furrows or flood irrigation. Similarly maize growing farmers can use knap sack sprayer, onion growers can use fluch loniar in the irrigation channel, gingelly growers can use 1 litre plastic collapobis glucose and groundnut farmers can use fluchlorain as a spray fluid on the soil surfaces — for weed control. A third group of reports is of interest to fruit farmers: from the college of agriculture, Rajendra nagar, the mango fruit growers are advised to use fanvaler EC as spray and from the Krishi Vigyan Kendra Pondicherry, 5 steps from maintaining 100 trees per hectare to using insecticides are suggested to control mango hoppers. Indian Institute of Horticultural Research, Bangalore recommend bio control through use of mealy bugs to fruit farmers growing guavas to eliminate some 80 species of insect pests, The National Pulses Research Centre, Vemban advises banana farmers that the Rhizon weevil threatening banana can be controlled by use of—infestation free suckers and the out ends covered with a layer of clay: similarly TNAU, Coimbatore advises the Poovan growers that two rounds of foliar applications of one per cent urea with two per cent muriat of potash during preflowing stage will check premature ripening, the Kottayam experiment advises banana growers that banana aphids can be controlled by use of coccinelids beetle as predator. A fourth group of reports refer to the cure to animal diseases. The farmers developing chicks are advised by the TN Veterinary and Animal Sciences university, Tiruchi that new duck syndrome which is a killer disease can be treated by mixing sulpha quinescaline at 0.05 per cent infeed for five days. The college of veterinary science advise cattle growers that ascariasis in calves can be treated by giving doses of piperazine, morantal or lavamisole and proper disposal of faecal matter of sick calves. VCRI Namakkal advises buffaloae owners that buffalo pox can be treated by cleaning the lesions with 1:1000 solution of potassium permaganate followed by antiseptic ointment: affected animals should be isolated and milked by a separate milker.

Fishing

On July 11, government imposed limits on fishing to nautical miles this side of the international boundary line. This restricted severely prawn fishing which were developed by spending a great deal of money, converting their

fishing vessels to make them suitable for prawn fishing. Besides this 600 prawn fishermen, 5 lakh fishermen in five districts will be affected and their livelihood taken away from them as upto the 5 mile limit the sea is rocky and fishermen lay their net only when they cross this limit. Hence the July 21 relaxation of the limit and fishing allowed in groups of 10 vessels accompanied by wireless sets and government officials - both to prevent smuggling and prevent the Sri Lankan Navy interfereing with the fishermen was a relief to the fishing community.

Rubber

The natural rubber front faces both glut and stagnant prices and the credit squeeze limits the purchase capacity of rubber users. The glut is due to under consumption. It is reported that nearly half the 300 tonnes of rubber arriving at the Kochi and Kottayam markets is unsold and 10,000 tonnes are in stock with growers. This is the offseason, so that in 3 months when the season is in full swing the situation will worsen. The manufacturing sector is unable to lift the rubber because of the credit squeeze and there is their complaint that the required quantum of RMAIV grade rubber is not available. RMAIV prices at Kottayam are Rs. 21.15 per kg. against Rs. 23.25 per kg this time last year. STC is not buying because it has a stock of 25,000 tonnes. Following devaluation of the rupee imports of rubber have become dearer and so the manufacturers demand for imports of 20,000 tonnes is out of the question. The new trade policy which requires that you do not import unless you export, also implies not importing more than what is needed. For 1991-92 production at 3,65,000 tonnes will be marignally higher than the estimated domestic consumption and so the import question should not arise. Under the new trade policy it is estimated that the import and export will be 27,000 tonnes, with 22,000 tonnes being imported under the REP scheme, leaving only 5000 tonnes to be met from domestic consumption. Against this background, the union government's decision to study the cost of production of rubber is good. The demand for imports will come up against the BOP problem, the growers resistance to imports and the expectation of a sharp rise in global prices. When prices are going to raise and imports are ruled out, the cost study may do little to remove the misgivings of bulk users but the facts on costs should be established in the interest of both growers and users.

* * * * * *

III. Industrial Development in Tamil Nadu

Industrialisation in the state in July had the usual plus and minus points.

On the plus side *first* there is the increase *in the quantum of capital subsidy* to be made available to medium and major new industries—an increase from Rs. 15 lakhs to Rs. 25 lakhs for investment above Rs. 100 crores. Also new industries with an investment of Rs. 50 crores to Rs. 100 crores will have sales tax waiver for 5 years or deferral of tax for 10 years and for those with investment above Rs. 100 crores, the waiver for 6 years and deferral for 12 years. *Second, TIIC* has decided to waive the recurring credit guarantee fee of 1.25 per cent of loan amount and instead make a one time charge of 0.75 per cent. It has waived the collataral requirement from SSI loans, enhanced the sanctioning powers of its regional offices to Rs. 12.5 lakhs and gives relief of penal interest at 5 per cent an amount due for the period of delay instead of the earlier 2 per cent on the whole loan period. *Third*, the union government has approved the *Rs. 40 crores Narimanam project* for LPG production. The plant will be part of the 0 5 million tonnes crude refining project being set up by the Madras Refineries at a cost of Rs. 115 crores at Panangudi, Nagapattinam. *Fourth, Bharath Petroleum Corporation* announces that it is setting up a Rs. 15 crores lubrication oil plant in Madras. *Fifth, Leather exports* now (1990—91) at Rs. 2500 crores is to be expanded to Rs, 10,000 crores by 2000, with Rs. 3500 crores by 1984-85, *Sixth, TIDCO* announces that it will launch 8 new projects at an estimated cost of Rs. 500 crores this year including a nitro phosphate complex at Chidambaram district with a capacity of 1000 tonnes a day at a cost of Rs. 300 crores, an acylic complex at Thanjavur at a cost of Rs. 100 crores, a heat transformer fluids plant in South Arcot for Rs. 40 crores, a 50 tpa fruit process plant at Dharmapuri (Rs. 10 crores), a unit for coconut based product at Kanyakumari (Rs. 20 crores), a 1400 tpa diktene derivatives plant at South Arcot (Rs, 30 crores) a 200 lakh tpa unit to manufacture the neutral alcohol for export and a 30 million tpa plant for manufacturing fly ash bricks at Chinglepattu (Rs, 5 crores). For these, it has letters of intent and it is advised that they be established in the associate sector where the state's stake will be limited to 11 per cent. *Seventh the black granite* industry is in good shape in the state and the demand from many countries for polished black granite from Tamil Nadu should lead to a vigorous export industry. *Eighth, the Ambattur Industrial Estate* is developing an export consortium or export house to take advantage of increasing competition in the domestic market and decline in the foreign exchange value (devaluation of the rupee). *Ninth, General Electric Company*, as noted earlier, is setting up a Rs. 7 crore plant at Poonamallee to make SF 6 circuit breakers and isolators. It will have a licensed capacity of 1360 SF circuit breakers and 620 isolators, both upto 800 KV. *Tenth, Ashok Leyland* reports a very good performance for the year ending March 31, 1990 with gross turnover of Rs. 9123.90 crores (+13 per cent over the previous year), production of 24,976 vehicles (+11 per cent). The (Press Metal Corporation) Ambattur Unit which supplies frames for Ashok Leyland vehicles was amalgamated with Tube investments. Ashok Leyland reports that it has readied the first phase of its investment programme of Rs. 570 crores

for expansion of existing capacity, modernisation and introduction of new range of commercial vehicles and has tied up the source of finances for this. *Eleventh, Tamil Nadu's 58 public sector units* for the first time report making a profit of Rs. 1.07 crores for 1989–90 against a net loss of Rs. 47.10 crores in 1988-89 and Rs. 62.95 crores in 1985-89. The margin on sales which has been negative (-3.87 per cent in 1985-86) turned positive in 1989-90 for the first time. This heartening record was mainly due to Tamil Nadu Newsprint which earned a profit of Rs. 31.02 crores for that year (1989-90). Of the 10 groups of the PSUs, manufacturing turned from a loss of Rs. 15.40 crores in 1988-89 to a profit of Rs. 24.17 crores. So too agriculture and allied activities turned from the loss of Rs. 1·87 crores in 1988-89 to net profits of Rs. 7.43 crores in 1989-90. The states transport sector and trading continued to perform poorly with transport increasing its loss from Rs. 12.20 crores in 1988-89 to Rs. 21. 88 crores in 1989-90 and trading from Rs. 6.55 crores to Rs. 13.71 crores. This is on the whole heartening record. For 1989-90 of the Tamil Nadu capital investment of Rs. 1661.65 crores (35 units made profits compared to 25 in 1988—89, and the other 10 units record a loss of Rs. 48.20 crores). The question arises whether the government should be involved to this extent in investment and production. *Twelfth, Tamil Nadu Petro Products* is setting up two plants - a Rs. 94 crores caustic soda unit at Thanjavur with a licensed capacity of 100 tpd and turnover of Rs. 45 crores: a Rs. 45 crore heavy normal paraffin plant at Manali, with a capacity of 15,000 tonnes per annum. The company is already licensed to manufacture linear alkyl benzene (LAB) which is parallel to heavy paraffin. *Thirteenth, PIC* had a good record in 1990—91 despite the difficulty it faced in availability of its important raw materials and disagreement of its management with the government. Despite serious shortage of important phosphoric acid and ammonia, its overall turnover was marginally higher at Rs. 863.06 crores and its net worth to Rs. 144.34 crores. *Fourteenth. CLRI* is establishing a model rural slaughter house as an alternative to existing system of meat production and handling. If favourable, it will lead to a chain of rural slaughter houses in the state and the country. *Fifteenth,* the *alam Steel plant,* a unit of SAIL, not only broke even during the year, it was able to export 3800 tonnes of stainless steel (Rs. 13 crores) despite the global decline in steel exports due to the Gulf crisis. The plan this year is to double its exports to over 6000 tonnes. *Sixteenth,* the long pending Madras gas cracker project, the *National Aromatics and Petro Chemicals Corporation* (NAPCO) with the original promoters, *Madras Refineries* (MRL) and SPIC has been recosted in view of the devaluation of the Rupee, and is now before the cabinet for approval on the basis of the fresh estimates. *Seventeenth, Food processing* is emerging on the thrust area in the state, with growing investment in it. On the negative side, *First, the sugar industry* in the state faces a serious problem, with a high production (as of early July 11.31 lakh tonnes was recovered compared to the previous year's 8.72 lakh tonnes despite a lower recovery rate at 9 per cent the year against 9.36 per cent in (1989-90). It cannot however release more sugar over what is already allowed. It has been checked with the tying up of capital and their demand by the demand for urgently needed working capital funds. So far the banks have financed only the expansion and modernisation and have not funded the working capital needs, and now with the tight financial situation and the RBI directives on restricting

loans and raising of bank rates, the mills face a real quandry. It is also not in their interest to release more sugar to the market, as that will bring down the price and create another set of problems for them. *Second*, and related, the 31 sugar mills in the state have *accumulated molasses*—the carry over stock as on October 1, 1990 was 1.04 lakh tonnes and for the current year (with average molasses recovery of 4.47 per cent) 5.62 lakh tonnes of molasses will be produced, giving a total stock of 6.66 lakh tonnes. The 8 distilleries in the state by June 1991 have taken 2.39 lakh tonnes and in the remaining 3 month will take 0.79 lakh tonnes—a total offtake from the factories will be 4.03 lakh tonnes in 1990-91. The net surplus of 2.63 lakh tonnes is a burden for the mills and environmentally polluting as the mills are forced to let the surplus molasses to be exported which will earn $7.9 million, as the foreign demand for molasses is high. This will also add to our foreign exchange earnings. The union government is insisting that only value added should be exported in this case is wrong and short sighted. *Third, BHEL, Tiruchi* is in a bad way: because of import restrictions on its 700 crores imports for 1991-92, it has had to cut its shop floor production by 50 per cent and has already laid off 600 casual workers. Its letter of credit (LC) application is lying unopened in RBI, and so its purchases have stopped, its ancillary units having no orders from BHEL. Hence BHEL has appealed to RBI for some relaxation on its LC, but there is little hope of this, as this is part of a national issue. *Fourth*, the two and half year closed *Standard Motors Products* (SMPL) is still under BIFR study. Should it be reopened as a result of Trade Union pressure and state government insistence? Will it become another loss making unit? BIFR has now passed the ball to the Banks and Financial Institutions (who are themselves in none too good a financial position to come up with a package of reliefs and concessions which will enable SMPL to be reopened. This reopening of a sick unit is a question mark. *Fifth*, another similar sick enterprise *MALCO* has gone to the High Court to challenge the show 'cause notice of BIFR for winding up the company. BIFR is very clear about the unit not being viable because of its sub optional capacity of 25,000 tonnes and the absence of assured power supply from TNEB. When the Board has after full investigation clearly proved that there is no option but to close the unit, the 2 months stay obtained from the High Court is merely prolonging the agony and postponing the day of reckoning. The enterprise should be closed. *Sixth, the small scale pesticide units* in the state are facing complete collapse because the state order is that pesticides should be purchased only from SSI units is not being observed by whole-salers, retailers, and consumers and because the 15 per cent price preference both for small and large units as directed by the Union government (and observed in all other states) is not being observed in Tamil Nadu because the government states that it is not in the farmers interest. Even the state governments' own demand is being met not from the SSI units but by the State Agro Industrial Corporation. This needs to be urgently sorted out and settled as it is clear that while the manufacture of technical pesticides belongs to the larger modern enterprises, formulations should be in the exclusive production domain of the smallscale enterprises. *Seventh*, another industrial group which is in a similar position of difficulties in the *State handloom sector*. Handloom

weavers are faced not with shortage of hank yarn used by them, are not being turned below 20 counts hank yarn which they use, but with a sky rocketing price rise above 80 per cent. This is because that the below 20 counts hank yarn are not being turned out by our spinning mills which find that yarn above 20 counts, is in great demand abroad, and so its high price has led them to concentrate on its manufacture. On top the large export of cotton, and the new REP licenses attached to it under the reform policy is starving both above 20 counts and below 20 counts hank yarn of the needed cotton. What is needed is for the state cooperative spinning mills to produce the below 20 counts hank harn which the handloom weavers desparately needs, as otherwise there will be a collapse of the sector.

* * * * *

IV. Education Science and Health

Educational reforms

The new government has announced a return to the Education Policy 1986 including the continued setting up of Navodya Vidyalaya. Such recommendations of the Ramamurthy Committee which are appropriate to the Policy and will improve its execution will be incorporated in the programme. The government has ruled out the proposal for raising the fees of higher education to make it pay for itself. This wholesale dismissal of an important means of financing the resources for improving higher education, which is also in the interest of equity is to be regretted. It is necessary and should be done gradually.

Literacy

In the literacy area, 6 universities in the state have incorporated adult literacy teaching and learning as part of their curricula and have taken steps to get two more universities and 15 autonomous colleges to join in this obligatory literacy programme. Annamalai University has launched a two month large voluntary literacy programme in which 1500 students and 300 teachers are participating to make 459 villages with 40,000 illiterates fully literacy in 4 blocks—Mebhuvanagiri, Parangipettai, Keerapalayam and Kumaratchi in S. Arcot district. The university has alloted Rs. 5 lakhs for this programme and the State Resource Centre is providing the training input. The programme besides literacy covers social hygiene, population control, environmental and ecological balance, precautions against cyclones, small savings and welfare measures. Under the National Literacy Mission, 3 districts have launched programmes to become 100 per cent literate districts—Kamarajar, Pasumpon Thevar and Pudukottai.

Science

The Comptroller and Auditor General in his report for 1990-95 is critical of the

Council of Scientific and Industrial Research for the way in which its funds on scientific projects have been wastefully expended. It refers to the Rs. 40 lakh released for a photo synthesis unit, which was closed after spending Rs. 25 lakhs on equipment, the Central Leather Research Institute developed 75 technologies since its inception but only 9 were commercialised. The Central Mechanical Engineering Research Institute spent Rs. 10 lakhs on developing software but closed it down because the user did not want it. Rajasthan Atomic Power Station imported Rs. 1.14 crores of equipment which is lying unused. The Department of Electronics is criticised for inadequate appraisal and monitoring of a project sanctioned at IIT. The biotechnology centre at Anna University reports developing a biocide to fight mosquitoes. It states that with the help of SPIC it will be commercially developed and marketed. The Tamil Nadu Veterinary and Animal Science University reports that it is launching an import substitution programme with planned production of sera, diagnostic reagents and various hormones. A Rs. 7.2 lakh project is also under way at the Tuticorin Fisheries Research Institute on fisheries feed technology using squid wastes. This would give a fillip both to domestic feed production and avoid imports from Taiwan and Japan.

Health

India's population was 849,883,925 on July 1—the World Population Day, according to International Research Institute for Population Studies, Bombay. Since 1990 the country's population had increased by 6 million. It would overtake China's population by 2035, China's population which was 1.139 million in June 1990, whereas at the present rate, India's population will be 1.4 billion by 2025.

* * * * *

V. Employment and Labour Relations.

The government accounced in Parliament on the basis of the results of the 43rd round of NSS 1982-88, the backlog of unemployed (usual principal status) was 13.1 million in March 1990. In 1990-91 employment is estimated to have grown at 1.8 per cent (against the target of 3 per cent). On conditions of employment, increased technological and economic development seems to lead to a decline in women's work participation rate because a) with such technical advancement, the need is for highly specialised jobs calling for special education, qualifications and skill against which should be set the low female literacy level. In Rajasthan, for instance, female illiteracy is 89 per cent, in the country 75 per cent of women are illiterate against 43 per cent of male illiteracy. b) industrialisation and modernisation has brought in its wake reduced dependence on agriculture, reducing their demand for women's employment. Computerisation reduces women's employment as can be seen in pharmaceuticals and the food industry, where women are employed only in low paid, clerical jobs. Even though employment of women in the organised sector is increasing, they

constitute a mere 6 per cent of total women workers who are mainly concentrated in factories and plantations. In fact the legislation providing for equal opportunities and equal pay for women has contributed to the decline of the employment of women, who were employed because of the low wages payable to them. Welfare legislation like compulsory maternity leave and rules regarding working hours has also led to the decline in women's employment, as employers fight shy of these rules and regulations. A study sponsored by the ministry of labour shows that in rural areas 35 per cent of families are solely supported by women and for another 35 per cent more than half the family income comes from the women. The 1991 census report which records the declining sex ratio is further an indicati on that wom en are being cut in the job market, in health and in economic development. Despite the overall situation in Tamil Nadu which shows that 4.58 per cent of the total child population is involved in wage earning work, the share of child labour in agriculture has risen sharply between 1980-1990 from 25.26 per cent to 47.07 per cent. Even in agriculture labour, the tendency is for children who complete the V Standard and crossed 10 years to leave school to take up work in the field to add to the family income. An IFAD study states that the number of rural women living in poverty increased 50 per cent in the past 20 years covering 550 million. Of them, 365 million live in Asia, 130 million in Africa and 43 million in Latin America and the Caribbean. They work for 17 hours a day, as poverty is forcing them to work even harder. Small, $50 loans are enough to lift the women out of poverty.

* * * * *

VI. Other Items

Madras Chamber of Commerce and RBI

The Madras Chamber of Commerce and Industry organised a workshop in early July on Development imperatives. There was discussion on the macro economic balances which should promote development and agreement of establishment of fiscal equilibrium and reform of trade policy. There was some disagreement on the role of the public sector and the market in the development process but there was agreement that in face of the serious economic crisis gripping the country, there should develop rather quickly a consensus on the short term and medium measures that need to be taken to restore the health of the economy. There was on the same day a meeting of the RBI Board of Governors where the first draft of the Annual Report for 1990-91 was discussed and in light of which the final report, including the perspectives ahead, will be drafted. There was a discussion on the 2 step devaluation on July 1 & 3 effected by the Bank and it was explained that the first devaluation was intended to test the waters which it did successfully.

Adult Literacy

There were two meetings on Adult Literacy, teaching and learning. The first was a meeting of the 15 Vice-Chancellors

of Tamil Nadu universities and 36 Principals of Autonomous colleges. 8 vice chancellors and 25 principals attended the meeting at which the 4 models uses by 4 universities and 1 autonomous college which incorporate adult literacy in the curriculum was noted. All the universities present who had not done so and 17 autonomous colleges made commitments to introduce literacy teaching in their curriculum during the coming academic year so that during the next summer vacation the staff and students would follow the curriculum in the villages in which they would be living. The other event was the literacy jatha organised by the BGVS in Madras as the start of a fortnight intensive Jatha activity in the Madras slums to stimulate literacy learning. The main organisers are the leading slum dwellers who are enthused by the literacy programme in their location.

World Bank on Indian Agriculture and Alliance Francaise

There was a seminar in mid July on the World Bank country paper on Indian Agriculture. There was general appreciation of the statistical compilation and interpretation of Indian Agriculture and general agreement with its main thrust that Indian agriculture has not developed its full potential and was unbalanced spatially in its development. There was criticism at the neglect of the movement for decentralisation which was involving the panchayats and mandals in agricultural development, the neglect of the importance of land reform in the analysis and some of the unrealistic conclusions drawn. In fact there was the feeling that there is need for a section on the implementability of the suggestions made, carrying further the prospects for action made which are heavily market oriented. A meeting of the council of Alliance Francaise reviewed the state of the organisations finances and in light of its sound nature recommended that the Bank loan of Rs. 50,000 outstanding for the last 5 years should be repaid. It also noted that the programme is well organised and enacted that the building programme support the intellectual activities.

IIC and ICRIER

The monthly panel discussion of the India International Centre on Decentralisation in Planning and Plan implementation was led by Arun Ghosh, ex Planning Commission member and BH Minhas of the Indian Statistical Institute. There was general agreement that the potential for enriching and making more realistic through panchayat involvement in the annual and five year plans was not being exploited and the need to make a start on the West Bengal or Karnataka Model was generally accepted, In fact this decentralised planning rather than going in for what is termed indicative planning is the need of the hour. A meeting of the Board of Governors of ICRIER followed by a meeting of the General Council was held towards the end of July. The programme of activities was reviewed and suggestions for further improvement of the research output were made. At this time when the economy is being thoroughly restructured, the research input of ICRIER can be an invaluable element. The need for raising a corpus of Rs. 5 crores to meet both its building programme and further fund its research programme was discussed in detail and a committee was set up to raise the funds, after explaining to the government its interest and commitment.

Seminar on Fiscal Management and National Foundation

The Indian Economic Association Trust and Department of Economics of the Madras University organised a seminar on Fiscal management in India. This event on the eve of the budget concentrated on the Fiscal deficit and means of cutting it, the inflationary pressure of the economy and means of dampening it and the balance of payments disequilibrium. On all 3 issues there was major agreement—on the need to cut government expenditure and increase government revenue through tax and non tax measures as an urgent means of reducing the fiscal deficit: on holding back the cost push factors following from devaluation and, the trade reform to keep the rate of inflation from further rising, and the compressing of imports, promotion of exports and improvement in invisibles as a means of reducing the current account deficit of the balance of payments. There will be medium term economic policy reform that will have to be faced. There was a meeting of some industrialists and planners and administrators to consider the feasibility of setting up a National Foundation with a corpus of Rs. 100 crores to fund some 7 main programme areas. The problems and difficulties of raising these funds from private sources were discussed and it was agreed that this first meeting will be followed up by further such meetings in Bombay, Calcutta and Delhi and also in the US, UK, Germany with NRIs to explore the perspectives.

SRC—TNBCE and MANAR committee

The meeting of the Governing Council of the State Resource Centre met at the end of July and reviewed the programme of the centre which is now being fully engaged with the 100 per cent literacy programme of the 3 districts referred to earlier. There are 3 more districts being ready to join the 100 per cent district literacy movement plus Madras city. The work of the cadres was reviewed and suggestions made for their improved functioning. The finances of the Council as reviewed by the Standing Finance Committee were noted as being satisfactory. The executive committee of the Tamil Nadu Board of Continuing Education also met and reviewed the state of the building programme for the headquarters and its financing by the union government and the state government. The Committee also reviewed the preparation for the Annual Conference to be held in October in Virudhunagar. It approved the programme and decided to invite the minister of education to inaugurate it. The Director General of the National Literacy Mission, Mr L. Mishra will deliver the keynote address. The Mass Action for National Regeneration (MANAR) Committee met in the last week of July and received a report on the Anna University semester on adult literacy from the organisation. The programme and achievements were different from that of Madras Christian College received at the last meeting and universities, particularly professional universities, would face similar situations and problems. It was agreed that Tamil Nadu Agricultural University, Veterinary and Animal Sciences University and MGR Medical University should develop the literacy component in their ongoing rural programmes on which Anna and Madras Christian College can help. Similarly these 3 universities can help the other universities and colleges with the rural, agricultural, animal sciences and health inputs in their literacy programmes.

Dr. C.T. Kurien's farewell

There was an impressive farewell to Dr. Kurien who retires after serving for 12 years as Director and Professor of the Institute. His invaluable services in building up the Institute were recalled and his unique scholarship which helped in producing 3 books as joint Institute Research Publications and his final theoretical research work on the functioning of the market were recalled. Dr. Kurien will continue as Emeritus Professor of the Institute.

August Development Seminar

The paper for the August Development Seminar, "Need Based Energy Management-Distribution is the key" by M.G. Devasagayam along with the summary of the discussion of the seminar appears as the first article.

Second Article

Paper on the Union Budget 1991-92 : A comment, appears as the second article.

Book Review

A review by Prof. A. Vaidyanathan of the book, "Irrigation : Analysing and Improving the Performance of bureacracies" appears under the book review section.

M I D S News

Dr. P.V. Sukhatme delivered a lecture on "Current Status of the Nutrition Debate" on 13th August, 1991.

* * *

Prof. T. Hayashi formerly of the Institute of Developing Economics, Tokyo and currently Professor at the Daito Bunka University gave a seminar on "Japanese Experience in Technology" on 21st August.

* * *

Dr. C.J. Fuller of the London School of Economics delivered a lecture on "Indian Anthropology in the 1980s" on 22nd August.

* * *

Dr. T.K. Sundari from the Centre for Development Studies presented a lecture on "Some Preliminary results of a Health Survey of Scheduled Caste Households in Chingleput district on 26th August.

* * *

A seminar on "World Development Report 1991" jointly organised by MIDS and Institute for Financial Management and Research was held on 11th September at IFMR premises.

* * *

Prof. A. Vaidyanathan participated in a function to celebrate 20th anniversary of the founding of the CDS, Trivandrum on 14th August, 1991.

He also presented the results of a joint paper with Dr. B.G. Kumar on 'Morbidity' at CDS on 16th August.

* * *

Prof. Nirmal Sengupta attended a discussion session with the Action Research groups at NIRD, Hyderabad on 14th September.

* * *

Dr, Paul Appasamy presented a paper on "Reuse of Wastewater" at a seminar on "Water for Madras" organised by the Tamilnadu Science Forum, Madras on 7th September.

Need based energy Management - Distribution is the key

(A paper based on Haryana experiment)

by

M. G. Devasahayam, I.A.S. (Retd.)
Chairman and Managing Director, Devson Decors Ltd., Madras.

Power shortage in India is endemic. Despite heavy investment in the power sector and additional power generation every year there appears to be no chance of the shortage syndrome easing up in the near future. Barring Andhra Pradesh, Himachal Pradesh and Kerala all other States and Union Territories have perpetual power deficits. There seem to be no respite from this crippling deficits if we go by the figures than are being published from time to time.

Were these defícts related to the need or the projected demand? This is a question that should be asked and answered sincerely if we are to get out of this shortage syndrome which has become the order of the day. In the power sector, it has almost become a ritual to insistently clamour for more projects, more power plants and more generation. According to experts, this is the only way to meet the projected demand of today, tomorrow and the day after. This school of thought, which is the predominant majority, believes in the classical concept of load management which emphasises the continuous and copious supply of energy to all sectors of the economy and to all types of consumers at all times.

This is alright as an ideal proposition. This ideal could be achieved if only we had unlimited resources at our command. But in actual practice, the resources are not only limited but scarce. And these scarce resources need to be spread over several areas all calling for urgent attention. It, therefore, follows that a demand based energy management would only result in the shortage syndrome repeating itself endlessly since the ever growing 'demand' could never be met fully and satisfactorily.

A better alternative would be to replace the demand based energy management with a need based one. In the power sector there is a distinct difference between demand and need. Consumers of electric power could be classified into five broad categories-the industrial users, the agricultural sector, commercial organisations, the domestic consumers and essential services. Industrial users could be further subdivided as shift based industries and continuous process industries. Agricultural sector would include irrigation, tubewells and rural industries. Out of these several groups and subgroups, only three - continuous process industries, domestic consumers and

essential services - need power round the clock. Others may demand power 24 hours a day, but they don't need it.

On an appoximation only about 10% of the industries in India are in the continuous process category. Another 10 to 15% would be doing two/three shifts. The vast majority (about 75%) are just single shift industries who do not need assured good quality power supply for more than 8 hours a day.

In the agricultural sector, this demand-need dichotomy is even more prononucing. This is further aggravated by a major distortion that has taken place in Indian farming. Traditionally, paddy had been cultivated in water rich areas with abundant rainfall. But in the past few years, this water intensive crop has been flourishing in areas which depend upon canal and tube well irrigation to a very large extent. It is all right as long as it is confined to canal irrigation. But the recent trend has been towards tubewell irrigation even for this highly water-intensive crop. This was certainly not in the original scheme of things.

All the same, even for raising the best paddy crop through tube-well irrigation, 10 hours of power supply per day during the season is enough. For a less water-intensive crop like wheat, 6 hours of power supply in 24 hours is more than sufficient. Whereas the "demand" here may be for 24 hours, the actual "need" is only of the order that we have seen. There is no need for the supply grid to remain 'energised' for more than this 'needed' period.

Same goes for the rural industries. Agro based industries like sugar and cotton ginning are seasonal in nature and require full power only for part of the year. Cold storages need 12 to 14 hours of power supply preferably spilt in two or three parts.

Energy which is the time integral of power is the most perishable of commodities. Once generated, it has to be transmitted and consumed. A need based energy management would

a) identify the need of the various consumers

b) forecast the generation requirement based on the need

c) plan power generation as per forecast

d) lay down a suitable distribution network

e) regulate distribution as per need

f) monitor matching of need with supply.

The greatest bugbear of need based energy management is the distribution network. Consumers cannot be supplied power as per their need since the distribution network is not designed for that purpose. The present day power distribution is full of constraints and is clumsy to the core. The ills of the system are many-poor reliability, high line losses, low voltage profiles, overloading of transformers, poor maintenance, absence of conservation measures, stealing of power, haphazard layouts, whimsical load connection, inadequate clearance, etc. With a single feeder connected to all type of consumers there is no load discipline and the distribution network is exposed to several malpractices and distortions.

Generation of power also suffers as a result, engineers incharge of power generation in State Electricity Boards are not enthusiastic about optimising power generation since they feel it only helps those in charge of the chaotic distribution system to make more money. A positive demotivating factor if there is one. So it is that if the power problem is to be solved, distribution holds the key.

Haryana Case Study

This was the scenario that faced the Haryana State Electricity Board (HSEB) in late 1984/early 1985. Haryana perhaps is the typical example of how chaotic the power sector could be. The total power "demand" of Haryana was to the order of 160 lakh to 180 lakh units per day and the State was supposed to receive it from an assortment of sources. As against this demand, the average daily availability in the first four months of 1984 was in the range of 98 to 120 LU. It has been dropping since then. In the first four months of 1985, there was further drop recording the lowest average availiability per day in April 1985 (83 LU). The captive generation of HSEB from the thermal stations of Panipat and Faridabad (with an installed capacity of 415 MW) never went beyond 42.5% of the availability. The balance came from varied sources outside the State such as Bhakra Dam, Deharm Pong and Bairasai-all Hydro Electric Projects, the Indraprasthra power station at Delhi, Singrauli thermal plant of NTPC and the Punjab and Rajasthan State Electricity Board, when they had surplus power to spare.

In the face of persistent and acute power shortage, HSEB has been resorting to power regulatory measures almost perpetually. The one in vogue in end 1984 had categorised rural, industrial and urban feeders separately. The State was divided into two rural groups each running for 10 hours on alternate days. Industries were required to observe 3 off days and allowed 8 hours supply on working days. The continuous process industries and large power consumers with independent feeders were permitted to run all the seven days with a 60% power cut. The urban feeders were ON only in the night from 18.00 hours to 06.00 hours.

Good intentions and efforts notwithstanding this regulatory system had several defects and loopholes.

i) Available power was flowing in all the feeders simultaneously. Enforcement of the timings and power cuts depended on the discipline of the consumers which was totally lacking. Since power available was low and uncertain, consumers often resorted to panic utilisation.

ii) Continous process industry had indeed become a farce. Anyone with influence or clout could get his unit in this category and draw power without fixed quantum of units provided he is willing to keep the people concerned in good humour.

iii) In rural areas, farmers would keep their electric pumps switched on so that they could water their fields at whatever time power was available. There were large number of stealthy and unauthorised connections to tube-wells which were not accounted for.

iv) In areas where power was supplied only in the night for farming, there was lot of hardship to the farmers and wastage of precious water.

v) Need based energy management was not possible since from most of the grid sub-stations located in urban areas, the feeders catered to urban/semi-urban and rural loads. Even otherwise, there were no separate feeders for supplying power to distinct categories as per need.

vi) Even to cater to the demand of essential loads like hospitals, water supply and sewerage, the entire urban/

rural feeders had to be switched on facilitating unauthorised overdrawal of power by various categories of consumers connected to such feeders.

vii) With vast discretionary power vesting with junior level functionaries, it was a field day for the unscrupulous and vested interests. Senior officials could not do much in view of the powerful partronage some of the consumers enjoyed at high political levels.

All these factors lead to a situation where there was virtual chaos in the power front in the State of Haryana towards end of 1984. The crops were withering, industries had come to a grinding halt, there were severe disruptions in essential services and the domestic consumers were spending dark nights. Despite peak load restrictions from 18.00 hours to 22.00 hours, there was heavy overdrawal on the Bhakra system which in fact was the base load constituting about 40 to 45% of the power availability. With this base load drawn within a matter of hours, Bhakra power was cut off in the early hours of the morning leaving the system entirely dependent on the erratic thermal generation and unreliable outside sources of power. This resulted in frequent shut downs, tripping and voltage fluctuations. The quality of power available was very poor. There was a situation in which it was the Bhakra Management Board and not HSEB who were calling the shots and controlling the power availability and supply in the State of Haryana. With the power position in such a mess, there were convulsions in the political plane also.

It was at this point of time that a need based energy management system was quickly put together and enforced in the HSEB around the middle of January 1985.

In nutshell the new system was this :

Consumers were categorised into :

a) shift based industries

b) continuous process industries and industries having independent feeders.

c) irrigation tubewells

d) peak load requirement

e) domestic connections

f) essential services

After allocating 4 to 6 hours in the evening for peak load, the day was divided into three parts of six hours each. The State was also grouped into three regions each having 4 sub-stations of 220 KV. After the peak hours, power feeders in one group would be switched off from the 220 kv sub-station itself in rotation for six hours. If the power availability fell below a certain level, only one group would be on in rotation of six hours. For the essential services, continuous process industries and independent feeder industries, amperage/units were fixed and power released accordingly round the clock. Thus for shift based industries and tubewells assured power was made available for 6 to 12 hours. For tubewells, the power was sufficient since it was uninterrupted and industries could run one shift either exclusively with HSEB power or in tandem with generators. In addition, for special needs like water supply, timings were fixed and power made available outside these group timings.

This system of energy management which was effected through power regulatory measures was strictly enforced. It was a combination of PR, vigilance and technical supervision-PR to make the consumers aware of the

measures. Vigilance to put the fear of God into the field officers and technical supervision so that no one could act smart. It worked well and the effort was rewarding. Around the middle of 1985, an evaluation was made of the new energy management system. Here are excerpts from the report of the experts:

"Critical analysis of the effect of new regulation - benefits accrued thereof"

With the implementation of the new power regulatory measures, a large number of benefits have accrued to the Board/power system as a whole The feed back from the field offices and the general public indicates positive results and signs of general satisfaction inspite of serious power shortage. Some of the direct benefits derived are discussed as under.-

a) Assured supply of power

Under the new regulations, all the consumers were sure about the receipt of power during pre-determined hours. During the zone hours already publicised, the consumers can pre-plan their activities and adjust their power requirements accordingly. On the contrary, in the earlier system inspite of the announcement of working hours, supply used to be switched off due to unscheduled restrictions imposed by BBMB due to system constraints. For example, a small entrepreneur who had called his labour for one shift working assuming power to be available, had to lay off the labour because of unscheduled power cut. Now he can call the labour in the pre-determined hours and get maximum production benefits.

b) Equitable distribution of power

In rotation during fixed hours, under the new regulation, power flow is regulated according to the daily overall availability. This system assures equitable distribution of available power through out the State as there are no possibility of manoeuvring by the field officers. When the power supply is switched on, all the consumers in that zone get power and for the remaining period, power is switched off from the sub-station itself.

c) System discipline

As controlling officers in the field and the consumers are aware of the timings during which they have to get power supply, they neither misuse power nor have any temptation to get supply by unscrupulous means. Earlier in case of power cut from BBMB or other stations, consumers used to get agitated and there have been instances of manhandling of the local officers considering them to be the cause for non-availability of power supply This has now stopped and consumers by and large co-operate with Board officials to derive maximum benefit.

d) Improvement in quality of power

With the switching off loads in zones by rotation, the quality of power available improves considerably. All the concentration of power flow is in the particular area which helps in maintaining parameters to the desirable level.

e) Reduction in system losses

There nas been remarkable reduction in the system losses due to switching off feeders in the non-working zones. With lines remaining uncharged there is considerable reduction in the losses, transformer damage, etc. The saving is upto

5%. Another important factor is that when the line is not charged, there are no chances of pilferage of electricity or misutilisation of electric power. This helps in reducing not only transmission losses but reduction in unauthorised drawal of power by unscrupulous elements.

f) Streamlined control of power distribution

In the earlier system, transmission lines remained energized and the actual control for implementation of power regulatory measures was in the hands of junior functionaries leading to several malpractices. Now that power is to be supplied for limited hours, control is in the hands of senior officers and any misuse could be detected easily.

g) Transfer of control from BBMB to HSEB

With the present system, BBM was not required to apply any cuts and the regulation of power consumption is done by HSEB itself. We are able to control each power supply system in a pre-determined manner without any fear of sudden cuts by any outside agency.

h) Impact on the performance of Regional Grid

Earlier the system peak used to occur around 11 a.m. and 8 p.m. and there was a steep rise in the peak demand as compared to the rest of the day because of increased drawal by all categories of consumers. Now the power distribution is evened out over the day thereby helping in flattering the daily load curve. Comparative graphs at Figure B-1 and B-2 reveal a steep rise in the load factor because of these regulations. These graphs are for typical days before and after the new load management system. It will indicate that with the same availability of power (97 to 99 LU/day), load factor had improved substantially because of load management. This meant uniform and steady availability of power and better quality. Moreover, the capacity utilisation of the generating system has also improved because of the reduced load duration and suppression of peak demand. This has resolved the peaking constraints on the system to a considerable extent.

i) Higher consumer satisfaction and economic efficiency

With assured supply of power, there is a general feeling of satisfaction amongst the categories of consumers inspite of power shortage. Consumers have developed better faith in the distribution system of the Board and they are able to pre-plan their activities which have resulted in their economic efficiency.

j) Improved generation due to disciplined distribution system

Under the new system, the load demand during particular hours could be forecast to comparatively factual level and the generation can be programmed accordingly. System is not subjected to sudden unforeseen demands thereby helping the generating system within its working parameters. With the suppressed peak and flattering load growth, the generating stations can work as base load stations without much variation in their generating levels. This discipline has resulted in improved performance of generating stations and better availability of units.

Limitations of the new system

a) However, the new system had certain limitations which were inherent to a

distribution network controlled manually. All continuous process industries could not get round the clock supply. Only those getting supply from Grid Sub-station through independent feeder could get the real benefit.

b) System constraints

The supply could not be given to all the consumers satisfactorily during zone times due to following system constraints:

i) Inadequate capacity of Power Transformers/Distribution Transformers.

ii) Weak Transmission system.

iii) Tripping due to low voltage prevailing on the system, i.e., inadequate reactive compensation.

Distribution is the key for a need based energy management system. Load despatch control is the core of any distribution network. The improvements that had been brought about was all through a manual process of regulation and despatch. Even then certain long standing myths and presumptions had been shattered. Prior to the management measures, the average daily energy demand of Haryana was 160 LU, the satisfaction level was 140 LU and crisis level was 120 LU. The single most achievement of the new regulatory measures and management was to bring these levels down by a full 20 lakh units. As and when 140 LU power was available on days when the BBMB generated at full capacity and outside power came in as per share, HSEB could supply full demand of power to all consumers for 24 hours. At 120 lakh unit availability all sections had a satisfactory level of availability catering to their need with which they could carry out their economic activities. At 100 LU availability, there was crisis but no panic and there was reasonable level of satisfaction with a scaled down power supply. In short, within a period of about 4 months it was established that while the demand for power in Haryana was projected between 160 to 180 LUs, the actual need was only between 120 to 140 LUs, a substantial saving of about 25%.

The distinct advantages of the need based energy management system are:

a) It ensures high reliability of supply to consumers meeting their specific demand effectively for the specific period of actual requirement.

b) The location and removal of faults become easy.

c) The system losses are substantially reduced since line and equipment do not get overloaded for the full day.

d) The voltage profile at all levels is improved and the problem of motors losing their pep at low voltage is successfully resolved.

e) This is the easiest, quickest and the most economical way of meeting the power requirements of various types of consumers.

f) This scheme facilitates the adoption of energy conservation schemes and energy audit policy.

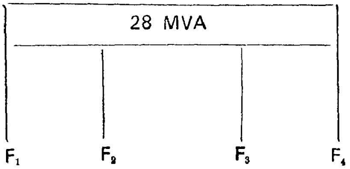
g) Power cuts are reduced and quality of power improves, leading to better industrial and agricultural growth and productivity.

All these were achieved manually with a distribution and load despatch system full of constraints. Yet the energy saving brought about at the level of a load centre was upto 48%. With a marginal improvement in the load despatch network, i.e., seggregating mixed feeders, a further saving of over 15% could be effected. Let us see this with an actual case in point.

Haryana State Electricity Board Experiment for Typical Load Centre

Case-1 : Practice that existed

T/f capacity is 28 MVA



1) F_1	=	City Feeder Capacity	:	4 MVA
2) F_2	=	Mixed load	:	16 MVA
3) F_3	=	Rural load	:	28 MVA
4) F_4	=	Continuous process industry load	:	2 MVA
		Total		50 MVA

With the conventional approach, it was just impossible to feed a peak load of 50 MVA with the distribution capacity of only 28 MVA, even if the full generation was available.

Case-2 : After grouping

Group A			Group B
F_1	=	2 MVA	
F_2	=	8 MVA	
F_3	=	14 MVA	26 MVA
F_4	=	2 MVA	
Total		26 MVA	

With this the city feeders, continuous and semi-continuous process industries such as cold storage, etc. could be fully fed as per requirement since the peak load was 2 MVA less than the max. capacity of 28 MVA.

Case-3 : After grouping and seggregation of Mixed feeder

Group A Peak load			Group B Peak load
F_1	=	2 MVA	
F_2	=	4 MVA	
F_3	=	14 MVA	22 MVA
F_4	=	2 MVA	
Total		22 MVA	

RESULT

1. Saving in MVA capacity in Case-2 compared with Case-1

$$= \frac{(50 - 26)}{50} = \frac{24}{50} = 48\%$$

2. Saving in MVA capacity in Case-3 compared with Case-1

$$= \frac{(50 - 22)}{50} \times 100 = 56\%$$

3. Saving in MVA capacity in Case-3 compared with Case-2

$$= \frac{26 - 22}{26} = \frac{2}{13} \times 100$$

$$= \frac{200}{13} = 15.38\%$$

ECONOMICS

When this method was adopted for the load and energy management in one load centre, quite a lot of relief was felt by the consumers on account of the fulfilment of justified demand·

If the distribution system and necessary elements of transmission system are modified to suit the new plan, the advantages would be remarkable.

Additional expenditure involved for this modification exercise is only about Rs. 20 lakhs for this small sub-system. But the power saved would be 4 MVA. For generating this much of power, an investment of Rs. 6 crores is needed. Thus we can see as to how cost-effective distribution improvement is vis-a-vis additional generation. And the time required for effecting these improvements is only about two to three months as against 2 to 3 years required for bringing equivalent generation to the bars.

When projected to the entire Haryana State grid, the saving amounts to an additional power equivalent of 215 MW. For generating this much of power, a Rs. 320 crore investment is needed and it would take 5 to 6 years for completion. On the other hand, for saving this much of power with a need based energy management and improved distribution network, the cost involved is only Rs. 16 crores and the lead time is just about 8 to 10 months for manual operation. For incorporating computer control, it may take another 6 to 7 months.

Blown up for the whole country the saving of power would be a whopping 6300 MW which would cost Rs. 9000 crores to generate !

Following steps and measures would greatly help in improving this system of load management further :

a) Proper urban land use planning and enforcement clearly demarcating areas

for specifi socio-economic activities like residential, commercial, industry and essential services.

b) For the existing urban and industrial centres having haphazard and disorganised spread of these activities. Power distribution and supply could be reglua-ted by installing wireless control systems at the 33/11 KV sub-stations giving signals to circuit breakers installed in the premises of the consumers. Different frequency is used for operating different types of load.

c) A scientific and systematic study of the need of each major consumer and sector and tailoring the distribution network accordingly.

d) Setting up of an effective carrier communication system.

e) Energy economics should become an important factor in evaluation of power generation and supply requirements. Presently it is too much engineering oriented which tends to get lopsided at times.

f) Need based energy management can be successful only if there is political will to go through the measures and administrative commitment to implement faithfully. These are pre-requisites since vested interests are bound to be affec-ted in any rational and scientific ma-nagement system.

These are low cost options vis-a-vis augmentation of generation capacity. This innovative need based energy management system can be further refined and carried out with precision with the help of modern real time computers to be installed at the load despatch centres of a State grid with necessary provision for integration with the regional load despatch centre. In the event, saving in power would be considerable, quality of power supplied would be good and consistent, and the level of consumer satisfaction would be of high order since their need would have been fulfilled. The bonus would be a substantial saving to the exchequer.

Summary of Discussion

Mr.P.C. Cyriac the Chairman of the seminar in his introductory observations pointed out that the paper is based on the experiment done in Haryana for the management of power shortage on a permanent basis. He further added that without power there was no meaning for the concept of economic development in the country. However in the context of the country's planning and decision making, to overcome this lacunae is not stimulative, because the present policy is to 'pay the cash and carry the coal' for generating energy. Hence this paper provides some practical solutions via the alternative method such as need based energy management instead of demand based management.

The author in his exposition highlighted the importance and need for the alternative energy management on a continuing basis. For this purpose, he explained the success story of "distribution aspect" of energy management in particular, the distribution during the loan (deficit) supply periods. He emphasised the point that 'the energy need is always less than the demand'. Further, he pointed out the 'inefficiency' in the energy distribution system. As a result, in Haryana, there was a gap in utilisation between power generation (140 mega watt) and actual consumption (100-120 mw). In order to obviate the situation he emphasised two aspects of management :

i) to carefully project the need based energy requirement and ii) effective implementation of energy distribution according to various needs. If it is done carefully there would be a substantial saving ranging about 25 percent of energy and a very satisfactory utilisation rate among the consumers.

The presentation was followed by an interesting discussion. One of the discussants raised his doubt that if a system is working in a very good manner but the "political" clout" intervene and dilute the system (for instance, giving enormous power subsidy to farmers and other small entrepreneurs etc), then how to remedy the situation? The author responded that it is possible first of all to create a public awareness regarding energy saving and its proper consumption then the political interference should be removed.

Another participant raised an issue about how to bring a system with equity in power distribution. The author explained to achieve this there should be some centralised planning necessary, which is also happening now and there

should also be an inbuilt system for several types of industries. For equity in distribution market mechanism (supply and demand aspect of management) is not suggestive, because it is a judicial matter and the privatisation process is purely captive in nature. However, while adopting concrete planning methods, intellectuals should not be allowed once the system is streamlined as the system itself is liable to change.

In the concluding remarks, the chair person stressed that the focus of the paper has on how to manage the situation of power shortage when the demand is high and how to distribute the shortage to everybody without pain in a suitable way. Further he pointed out the power situation in Tamilnadu as follows:

Presently in Tamilnadu there is no power cut, because all Thermal Power stations have enough capacity for generation. Every day in three central stations (Neyveli, Kalpakkam and Ramagundam) a total of 3000 mega watt (2000 Hydel + 1000 mw thermal) or 65 million units is generated. He further added, that Tamilnadu is one of the best states in the country. Regarding power utilisation (90%) of thermal capacity and even during power cuts the state is in a better position than many other states. For the better distribution of power supply in Madras city there has been an allotment of Rs. 1700 crores by Asian Development Bank to re-design the distribution system within a few years. In Neyveli 3 more units each of 310 mega watt is to be set up soon. In Koodankulam 2000 mega watt would be generated by 2000 AD.

Apart from this optimistic picture he further added that in Tamilnadu there are 2200 section officers available which are covered by 29 distribution circles - all over the state. To build up a good system of distribution and to ensure better productivity a committee numbering 2000 consumers on an average, per section office was to be set up soon to hear the consumer's grievances regarding the power supply.

K SIVASUBRAMANIYAN

The Union Budget 1991 - 92
Some Quick Comments*

by

Malcolm S. Adiseshiah

Magnitude

The 1991-92 budget at Rs. 113,422 crores is over 20 per cent of the Gross Domestic Product of the country for 1990-91, the latest year for which provisional figures are available. In magnitude, it is an impressive amount, though an attempt has been made to reduce its growth by about 50 per cent from the growth of the 1990-91 revised estimates which was over Rs .14,000 crores above the 1989-90 actuals, to the growth of less than Rs. 7000 crores as between the 1990-91 revised budget and the 1991-92 budget estimates.

Breakdown

The 1991-92 budget places total receipts at existing tax rates at Rs. 1,03,698 crores and total expenditures at Rs. 1,13,422 crores, comprising Rs. 79,697 crores as non plan expenditure and Rs. 33,725 crores as Plan expenditures. Revenue receipts at existing rates of taxation yield a gross revenue of Rs. 66,218 crores this year compared to last year's revised estimate of Rs 58,916 crores. The share of the states in the tax revenue is Rs. 15, 643 crores, and the net revenue receipts of the Union government including non tax receipts are estimated to increase from Rs. 57,381 crores in 1990-91 to Rs. 65,524 crores in 1991-92. On capital receipts, market borrowing is placed at Rs. 7500 crores against last year's Rs.8000 crores, and instead of increasing by 10 per cent to over Rs. 8800 crores following past trends, small savings collection will be Rs.8000 crores. The 20 per cent disinvestment of equity of public sector enterprises, which it is claimed will broadbase the equity, improve management and increase their resources, will bring in Rs. 2500 crores. External assistance is placed at Rs. 3510 crores (not allowing for devaluation which should increase the

---

* An article for the Southern Economist by Dr. Malcolm S. Adiseshiah, July 31, 1991.

amount by 15 to 20 per cent compared to Rs. 3984 crores in 1990-91. The result of all this is a budget deficit of Rs. 9724 crores (without the revenue from additional taxes and additional resource mobilisation), a revenue deficit of Rs 15,859 crores and a fiscal deficit of Rs.39,732 crores, from each of which the additional tax and resource mobilisation of Rs. 2005 crores should be deducted.

One of unique features of this budget is the section on financing human resources development, comprising an increase of Rs. 112 crores to Rs. 977 crores in education in the current year, the provision for employment generation of 900 million mandays, at Rs. 2100 crores, the sum for rural water supply of Rs. 758 crores so that there will be no "problem villages" by March 31, 1993, the development of a corporation for backward class development, a National Renewal Fund to look after workers who are rendered unemployed because of technical change, a National Foundation to care for children orphaned by communal riots and a youth exchange programme to promote National integration.

The increase of revenue is through the corporation tax which will bring in an increase of Rs. 1304 crores, the interest tax an increase of Rs. 535 crores, personal income tax an increase of Rs. 125 crores through enlarging the net and improving collections : on customs Rs. 510 crores will be lost through narrowing the range and reducing the maximum rate from 300 per cent to 150 per cent. The union excise will net Rs. 985 crores and the total tax revenue increase will be Rs. 2617 crores. On the expenditure side, major subsidies (export and fertilisers) have been reduced from Rs. 9550 crores to Rs. 7824 crores. On interest payment which is the largest expenditure item there is no reduction as there can be none in the short run, but by reducing market borrowing in the future, interest—payments will be reduced. On expenditure reduction, it is capital expenditure, plan and non plan, that has been cut, with only a 1 per cent increase over last year's capital expenditure, while revenue expenditure has increased by 8 per cent. The ministries that have taken a cut in outlay are—fertilisers from Rs. 585 crores to Rs. 411 crores, civil aviation from Rs. 485 crores to Rs. 433 crores, industrial development from Rs. 244 crores to Rs. 70 crores, heavy industry from Rs. 594 crores to Rs. 531 crores and mines from Rs. 613 crores to Rs. 417 crores. All this reflects the intention of government to pull in its horns in these sub sectors and let private operators take them over.

The budget for the first time is the centre of a comprehensive national economic policy, but like all budgets has its strong points and weaknesses.

Strength

The 1991-92 budget is the decisive key and focus for bringing about a turn around in the economy, its own specific contribution to it being the reduction of the fiscal deficit from 8.4 per cent of the gross domestic product last year to 6.4 per cent of GDP during this year. This involves rather heavy increases in taxes and charges (with more to come in administered price increases), and reductions in government expenditures to be referred to later.

Second, the budget takes account of the major effect of the devaluation of

the Rupee in computing the heavier debt servicing charges involved, though the effect of the larger rupee equivalent of the inflow of foreign loans and assistance, along with a number of items which should have been adjusted, which will be referred to later, are not reflected in the budget.

Third, the tax increases which will bring in Rs. 2617 crores this year are needed, both to reduce the gap between government revenue and expenditure and to cut back consumption of goods and services which are not essential for the individual or household economy. It is also good that the decline in direct tax receipts has been slowed-(there is some difference of opinion on this). Also the increases in excise duties are on what the budget calls items of "elitist consumption". But the NCAER quadrennial households survey (1986-90) shows that some of these items like transistors, radios, TVs, VCRs, are being consumed by the urban and the vast rural lower middle classes (income between Rs. 12,500 to Rs. 25,000 per annum), and if that is so, they should also bear the burden of additional taxation.

Fourth, the budget has made a start in cutting back on government expenditures mainly in reducing the cost of the fertiliser subsidy, in abolishing the cash compensatory support which cuts back about three fourths of the export subsidies and reducing one part of the food subsidy, namely that on sugar. In this area of cutting government expenditure, it is good that the government has asked the ministries to prioritise their items of expenditure, so that they could cut the last items for purposes of paying their DAs or as economy measures. The real subsidies to be reduced are in the states—on road transport, electricity and water.

Fifth, and as a result, a first step has been taken on the revenue deficit reduction from Rs. 17,585 crores of the revised 1990-91 year to Rs. 13,854 crores for the current year and this process needs not only to be maintained during the year, it needs to be intensified during the next 3 years so that by the end of the VIII Plan there will be no revenue deficit. Similarly the budget deficit has been cut from Rs. 10772 crores in 1990-91 revised, to Rs. 7719 crores in 1991-92 which is I per cent of GDP. This again is a good start, it should not be allowed to increase during the year and should be continued and intensified in the next 3 years so that the budget deficit at the end of that period is 0.

Sixth, the reduction of the fiscal deficit from Rs. 43,331 crores (revised) in 1990-91 which was 8.5 per cent of GDP to Rs. 37,727 crores for this year which is 6.5 per cent of GDP is a good start. This sets the stage for negotiation on the long term and larger IMF loan. But the aim in regard to the fiscal deficit also should be to bring it down to 2-3 per cent in 3 years time.

There are also certain queries in the budget.

Queries

First, on the cutting of non plan expenditures, not enough has been done on two fronts. One is the huge defence outlay which has not only not been cut but has actually increased by over Rs. 500 crores. The other is the administrative costs of the government has not been cut nor the budget support and subsidies to the public sector enterprises. Here much more could be done in the next budget.

Second, the loss making public sector enterprises are not being adequately dealt with in the budget. They are being referred to BIFR which is a waste of time, as the experience of the past few years since its creation shows. These perenially loss making units should have been closed or sold. The obstacle to this is the strong trade unions opposition and that of the political parties. It is hoped that the National Renewal Fund will begin functioning this year and give the trade unions an assurance that the workers who are thrown out of work as a result of closing the loss making units will be retrained and deployed in the new units, which the funds raised from sale of their real estate should make possible. Meanwhile the fund will provide a safety social security not to the unemployed workers.

Third, the proposal to disinvest 25 per cent of equity of some public sector enterprises raises many issues. It should not be regarded as a revenue raising measure. Its receipts should not be used to meet the government's consumption expenditure. The exercise should also cover loss making units, and the funds so raised should be used as capital investment.

Fourth, in the area of taxation, the biggest gap in the country is the absence of any tax on agriculture. This has been widely debated and it is to be regretted that the budget has not posed this issue as a question which demands serious attention in time for the next budget.

Fifth, the inflationary pressure on the economy will intensify and be felt from four sources : first the rise in petroleum prices and railway fares and rates; second, the improved balance of payment through larger export earning and higher import prices resulting from the Rupee devaluation; third the subsidy reduction of fertilisers and sugar will raise their prices : fourth, the enhanced excise on the white goods; TV, Refrigerators etc. The contra-inflationary force is the macro level deficit reduction and the decontrol, delicensing and deregulation which are long term anti-inflationary forces.

Sixth, there is a feeling of unease ove the various provisions made in the budget for dealing with black money. There is the amnesty scheme, which will allow people to deposit their unaccounted funds in the National Housing Bank, being able to draw 60 per cent of it, and use it. On the whole deposit, there is "to be no look in period". The other scheme is the foreign exchange remittance received by any person which will not be subject to gift tax and which will not be subject to scrutiny under direct tax laws and exchange control regulations. There have been some 7 schemes like this in the past, which have failed to unearth black money, and which are per contra unfair to the honest tax payer.

Seventh, the NRIs are being invited to send funds to India on the assurance that no qnestion will be asked as to their source. This surely is an open invitation to NRIs to bring in a larger way unaccounted money, which they are doing now, and using our banks to launder such black money. This is being done through the immunity to foreign remittance from direct tax laws and exchange control regulations referred to earlier, and through the dollar based India Development Bonds to be issued for the use of NRIs. What is even more disturbing is the statement of the government that it expects an flow of \$3 billion as a result, so that its loan from IMF could be reduced th \$2 billion. Here we are entering a very slippery path.

Eighth, it is well to bear in mind the the World Development Report that while the structural adjustment programmes, on which we are embarked with IMF advise, can and has improved the balance of payment position in the countries adopting such programmes, there is no hard evidence that it leads to further economic growth and may, as in some countries, lead to negative growth and negative effect on investments. This is a sobering thought.

Ninth as referred to earlier, the budget except for some item like debt servicing, does not reflect the devaluation of the Rupee and the rise in railway freight rates. Except for a few items, most are budgeted at the same level as the interim budget. This may be a signal to the ministries to cut their spending (when it is in Rupees). But when the expenditure has to be in foreign exchange as in the case of embassies maintaince by the ministry of external affairs, or in the contribution to the UN and specialised agencies, defence imports, purchases abroad by the departments of space and atomic energy, there will be around 20 per cent increase of what was provided in the interim budget. But the final budget makes no provision for the increased Rupee expenditure and to that extent is misleading.

Tenth, the budget's fiscal deficit correction has resulted in a lower Union Planning outlay (in real terms). The nominal increase in the plan out lay (Rs. 42,969 crores) is 12.9 per cent but with inflation at 12.6 per cent on the basis of the whole sale price index and 13.6 per cent on the basis of the consumer price index, the Union Plan outlay has not only not increased but has marginally declined in real terms. This together with the heavier cuts in capital expenditures, referred to earlier, will hold back the growth impulses of the economy.

Finally the open preference for the market—that World Bank and IMF call the market friendly approach—raises many queries. The budget statement says "a reformed price system can be a superior instrument of resource allocation over quantitative controls" Wil it? Does this weaken the planning process in the economy? Immediately after the above statement, the budget statement says "but market can only serve those who are part of the market system. A vast number of people in our country live on the edges of a subsistance economy". The poser is whether the budget and the economy should be making friends with "subsistence economy personnel" "rather than with the market.

Book Review

Managing Irrigation : Analysing and improving the performance of bureaucracies
by Norman Uphoff with Priti Ramamurthy and Roy Steiner, 1990;
Sage Publications, New Delhi, pp. 230; Price Rs. 180/-.

This book is concerned with "how to improve the performance of bureaucracies having responsibility for irrigation management in developing countries". It is in 2 parts : Part 1, dealing with factors affecting performance of irrigation systems and their bureaucracy, consists of 4 chapters. Chapter 2 discusses characteristics of different types of management structures and the factors (including the nature of the system) affecting them. The objectives of irrigation management, the activities involved in it and the criteria by which performance is to be judged are reviewed in chapter 3. This is followed by a discussion of the relevance of 'context' (physical, technical, economical, historical, social etc) in shaping objectives and performance. The orientation and structure of irrigation organisation, their activities, capacities and relation with other concerned agencies is the subject of Chapter 5. Part II, dealing with elements and processes of reorientation to improve performance, focusses on what is called "improvement in management structure and style", (ch. 6) various alternative approaches to effecting the necessary reorientation (Ch. 7) and the role of socio-technical analysis, and institution building and development in the process (ch. 8).

The necessity for such a wide and interdisciplinary perspective to analyse performance of irrigation systems is correctly emphasised. However, the discussion is, for the most part, abstract, rather heavy with the jargon of organisation/management science and reads more like manual giving check lists of factors to be considered than a definitive, unified treatment of the problem. That the nature of an irrigation system, the agro-climatic and social context in which it operates and the management of the system interact with each other in influencing overall performance is obvious enough. The nature and implications of these interactions, and their impact on eventual outcomes in terms of output and its distribution are however not adequately brought out. The discussion of the role of the "context" in which irrigation systems operate is particularly anaemic. The authors could have used their

knowledge of the specific systems in different parts of the world (listed on p.23-24) for this purpose far more effectively than they have.

Even at the abstract level, some aspects of the treatment are somewhat questionable : For example, the distinction between bureaucracy managed and user-managed systems : Bureaucracy, in the sense of personnel employed to discharge specialised functions involved in managing irrigation, is necessary and are found even in user managed systems (eg. the tanks of South India). The difference is in the extent and manner of users involvement in making rules and in supervising the bureaucracy.

The bureaucracy is viewed as mediating between the government (which constructs and funds the system) and the users (who are supposed to have different goals) but it is also concerned about protecting its own interests. This characterisation, especially of the relation between the three groups is far too simplistic. The design and allocative role of government owned systems are supposed to reflect a particular balance between maximising returns to resources invested in developing and using irrigation and the interests of "equitable distribution" of benefits which is considered appropriate. Inconsistencies between the objectives, the design and the allocative rules, defects in the formulation of the rules and interference with the enforcement of rules by the bureaucracy can and do cause problems in management. As for users, in the Indian context at any rate, the government does not even consult them about allocation rules, nor are they informed about the rationale for these rules. Be that as it may, conflicts among users over the use of water are inevitable even if they are consulted. An important function of the bureaucracy is to mediate these conflicts on the basis of well defined principles and procedures but problems arise when this power is undermined by encouraging extra-organisational channels to intervene in settling disputes and violations in ways which are inconsistent with the prescribed principles.

The strategies for improving performance are again mostly by way of outlining different approaches to improvement current in the management literature, but with occasional reference to experience of specific projects. System performance being the outcome of the system design, the physical and social context and management-the amalgam of which varies from project to project-such general formulations are not of much value as prescriptions for institutional reform. The authors have been involved in actually implementing operational programmes for improved irrigation management in different parts of the world. A critical account of the experience of some of these programs informed by the perspectives advocated in this monograph will have been more useful.

A. Vaidyanathan

Publications of the Institute consist of the following categories

1. **Publications brought out by Messrs Sangam* Publishers :** These consist of a series of monographs mainly relating to Rural Development of Tamilnadu brought out between 1972 & 1980. Detailed list including prices available on request from the Programme Coordinator of MIDS. Orders may be placed with Sangam Publishers, 11, Sunkurama Chetty Street, Madras - 600 001 for these.

2. **Cyclostyled Publications :** These consist of Working Papers, Digest Series, Data Series, Popular Series, Interns Reports and Offprint Series brought out since 1978. Detailed list available on request from the Programme Coordinator of MIDS.

3. **Occasional Publications of the Institute Include :**

a) *A Manual of Sources of Data on Tamil Nadu Economy* (1979) published by MIDS pp. 92, priced at Rs. 10/- per copy and Rs. 6.50/- for bonafide research scholars.

b) *Area Studies Bibilography Tamil Nadu* (1984) published by MIDS, pp. 226 Rs. 30/- for paper cover & Rs. 40/- bound volume.

c) Social Science Research in South Indian Universities—Listing and Review of Ph.D. Dissertations (1989) Published by MIDS and ICSSR, SRC, pp. 260, Rs. 20/-
a), b) and c) obtainable from the Programme Coordinator of MIDS.

4. **Special Publications***

a) *Poverty — An Interdisciplinary Approach* edited by B. Sarveswara Rao & V. N. Deshpande (1982) & published for MIDS by M/s Somaiya Publishers Pvt. Ltd., Bombay, pp. 296, Rs. 125/-

b) *Guide to Research in Economics,* edited by C.T. Kurien (second edition) (1985) & Published for MIDS by M/s. Rainbow Publishers, Coimbatore, pp. 390

c) *Some thoughts on the Seventh Plan* by Dr. Malcolm S. Adiseshiah (1985) & published for MIDS by M/s. Dialogue Publishers, New Delhi, pp. 136, Rs. 70/-

d) *Shaping National Events* by Dr. Malcolm S. Adiseshiah (1985) & published for MIDS by M/s Dialogue Publishers, New Delhi, pp. 335, Rs. 180/-

e) *Tamil Nadu Economy: Performance and Issues* by MIDS (1988) & Published for MIDS by Oxford and IBH Publishing Co. Pvt. Ltd., Delhi, Rs. 60/-

*These publications may be ordered directly from the respective publishers.

Regd. No. M. TN/MS(S) 485

MADRAS INSTITUTE OF DEVELOPMENT STUDIES (MIDS)

The Institute was founded by Dr. Malcolm S. Adiseshiah in 1971 and was reconstituted in 1977 as a National Research Institute within the framework of the Indian Council of Social Science Research, New Delhi.

The aim of the Institute is to contribute to the economic and social development in Tamilnadu and India.

The activities of the Institute are:

—Research leading to Ph.D. Degree

—Studies and action-oriented research in micro-development problems

—Documentation and library service in development problems

—Exchange and dialogue at the State, National and International levels on development issues

—Publication of papers and results of the Institute.

Editor : Dr. Malcolm S. Adiseshiah. Published by Dr. S. Neelakantan for Madras Institute of Development Studies, 79, Second Main Road, Gandhinagar, Adyar, Madras 600 020, India.
printed at reliance printers, 9, sardar patel road, madras-600 020.